

A. JOSEPH DeNUCCI
AUDITOR

The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

ONE ASHBURTON PLACE, ROOM 1819
BOSTON, MASSACHUSETTS 02108

TEL. (617) 727-6200

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INDEPENDENT STATE AUDITOR'S STATEWIDE REVIEW OF ACCOUNTS RECEIVABLE AND REVENUE COLLECTION EFFORTS

OFFICIAL AUDIT
REPORT
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EXECUTIVE SUMMARY

Our review indicated that the Commonwealth needs to improve its collection of accounts receivable and evaluate how well its departments are collecting outstanding debt. By improving data collection, performing trend analyses, and establishing a financial assessment system, state officials would improve their ability to identify problems, enhance performance related to the collection and cash management of accounts receivable, and thereby increase Commonwealth revenues. The Office of the State Comptroller (OSC) reported a Governmental Funds¹ accounts receivable balance for the Commonwealth of \$4.8 billion as of June 30, 2003. Of this total, \$2.1 billion represents taxes receivable, \$1.3 billion represents federal reimbursements due the Commonwealth, and the remaining \$1.4 billion represents departmental accounts receivable such as fees, fines, assessments, tuitions, loans, and other state agency charges for services.

Our review, which focused on departmental accounts receivable, has identified areas needing corrective action that, when adequately addressed by the Commonwealth, will improve revenue management, strengthen internal controls and monitoring, and increase revenue collection, which will enhance the Commonwealth's results of operations and cash flow position.

Government revenue from various sources has grown over the last six years, from \$31.2 billion in fiscal year 1998 to \$42.8 billion in fiscal year 2003, an increase of \$11.6 billion, or 37%. There was, however, a significant drop from fiscal year 2001 to 2002 of approximately \$2.8 billion due to a decrease in tax revenue. In addition, taxes, federal reimbursements, and grants have declined as the predominant source of revenue over the six-year period, during which time the Commonwealth's accounts receivable balances increased. In fiscal year 1998, the total receivable balance was \$3.9 billion, and in fiscal year 2003, the balance was approximately \$4.8 billion, a 23% increase of approximately \$900 million. Of the \$4.8 billion, the estimated uncollectible amount for fiscal year 2003 is \$1.1 billion, up from \$968 million in fiscal year 1998. The estimated allowance for uncollectible accounts receivable over the past six years has increased by \$115 million, or 12%.

¹ Governmental Funds exclude trust, agency, and internal service funds.

Our prior statewide comprehensive review of billing and collection procedures for non-tax revenue by state departments undertook a similar review of non-tax revenue collection and monitoring procedures. During that audit, we reviewed activities at 39 departments and identified \$657 million in revenue enhancement and interest cost-avoidance opportunities, and made specific recommendations in conjunction with several other state departments that have resulted in several very successful initiatives. Since that time, we have issued several agency-specific audits that have identified inadequate department management controls, procedures, records, and systems for receivables totaling over \$175 million.

To help enhance its financial management capabilities, the OSC established the Billing and Accounts Receivable Subsystem (BARS) a statewide centralized, automated billing and collection subsystem that is fully integrated into the Massachusetts Management Accounting and Reporting System (MMARS). BARS provides departments with a mechanism to bill, collect revenue, provide customer statements, send delinquent notices to customers, and initiate the collection and intercept systems established by the Commonwealth. Departments have the option of utilizing BARS as their billing and collection system (known as “detailed” reporting), or maintaining their own independent billing and accounts receivable system and reporting their accounts receivable balance on BARS periodically (“summary” reporting).

As of June 30, 2003, 76 departments had approximately \$451 million in accounts receivable reported on BARS. In our sample, as of January 2003, eight “detailed” departments had outstanding past-due receivables greater than three years old valued at \$8,175,528, which represented 39% of their total receivables of \$21,014,691. Additionally, we noted that six of these departments had accounts receivables totaling \$825,688 that were as old as seven years. Overall, for fiscal years 1996 through 2003, write-offs of over \$62.6 million at 39 departments have resulted in lost revenue opportunities. Also, the Mid-Year Summary Aging Receivable Report as of December 31, 2003 for departments that report their accounts receivable in “summary” had \$162,505,303 in receivables that were greater than 360 days old. This amount includes 29 departments, three of which make up 88%, or \$142,473,286, of the \$162,505,303. These departments are the Department of Medical Assistance (\$42,890,938), the Registry of Motor Vehicles (\$36,458,627), and the Department of Transitional Assistance (\$63,123,721).

Although improvements have been made in the Commonwealth's centralized billing and accounting system, this review, which incorporates our prior audit work in this area, disclosed that improvements are needed in state departments' management of accounts receivable. Specifically, our review identified the following:

- Ineffective collection efforts, including delayed and inactive efforts to collect past-due accounts.
- Under-utilization by many departments of the state's Payment Intercept Program, a system that allows the Commonwealth to match debt owed against payments being made either for services or through the Department of Revenue tax system.
- Inadequate internal controls over recordkeeping and accounting for past-due amounts.
- Inaction in pursuing legal remedies or sanctions for delinquent parties.
- Inconsistent application of procedures for write-offs and a lack of documentation to support the basis for write-offs.

Based on the results of our review, our report contains several recommendations that, if adopted, would improve the departments' statewide fiscal management of the Commonwealth's accounts receivable. The recommendations are summarized as follows:

1. Develop and implement at a high level (e.g., Secretary for Administration and Finance, State Comptroller, Secretaries) a coordinated, strategic plan for managing accounts receivable. This should include an assessment of all agency activities relative to accounts receivable management, accounting, and recordkeeping practices.
2. Develop and implement a management reporting system to provide the capability to monitor more closely account status, ongoing billing, and collection efforts.
3. Monitor adherence to the Commonwealth's policies, procedures, laws, and regulations for managing accounts receivable.
4. Determine whether all accounts are properly managed, assess and evaluate reasons for suspending collection efforts and the ultimate submission of accounts receivables to the OSC for writing off uncollectible accounts, and determine why delinquent accounts have not been sent to collection agencies.
5. Consider and determine whether charging interest and penalties for nonpayment is feasible.
6. Assess the adequacy of staffing in the accounting, billing, and collection departments.

7. Fully utilize all collection methods available, including the Commonwealth's Payment Intercept Program, collection agencies, and legal action, to help collect outstanding amounts.
8. Evaluate the collectability of all accounts and write off amounts deemed uncollectible.
9. Develop a detailed and meaningful aging of all accounts receivable at the agency level in order to enhance the overall management of accounts.

In conclusion, Massachusetts, along with many other states, is experiencing difficult fiscal problems. Because of budget constraints, operating deficits, layoffs, and early retirement programs, many departments do not have adequate resources and funds to devote to oversight. As greater reliance is placed on non-tax revenue as a significant funding source to balance the Commonwealth's operating budget, greater attention must be paid to managing and enhancing the collection of these revenues.

INTRODUCTION

Background

The Commonwealth obtains revenue to fund its diverse operations, provide services, and establish programs from taxes, departmental revenues, federal aid, lottery revenue, and assessments. These last four categories are collectively referred to as non-tax revenue.

Tax revenue consists primarily of personal income, corporation, sales and use, excise, cigarette, motor fuel, and estate and inheritance taxes. Non-tax revenue includes various fees and charges under the heading of departmental revenues, which are collected by state departments from many sources. These sources range from the sale of goods, rents from use of state grounds and buildings, various license permit and registration fees, and fees for medical services provided by health and human service departments from which individuals, insurance providers, and Medicaid are billed. In addition, many state departments operate programs that receive funding from the federal government, and the Commonwealth receives a share of revenue generated by the Massachusetts State Lottery Commission.

Each agency is responsible for accounting for, recording, reporting, and depositing funds for all services. Departmental revenues that are not collected at the point of service are generated through the initiation of billings by departments. As part of the accounting cycle, once bills are generated, departments must maintain accurate records for all payments made to the Commonwealth as well as all unpaid bills. These unpaid bills represent an accounts receivable balance on the Commonwealth's Billing and Accounts Receivable Subsystem (BARS) or an agency's accounting system. Accounts receivable balances must be managed, monitored, and "aged", a process by which all unpaid bills are categorized by the number of days each billing has been outstanding or unpaid. All long-outstanding accounts receivable that are past due should be aggressively pursued by departments so that the accounts do not become uncollectible and have to be written off, since the older a receivable gets, the less likely it will be collected.

According to regulations promulgated by the Office of the State Comptroller (OSC), state departments are required to follow certain procedures relative to the collection of outstanding debt. In this regard, the OSC's 815 Code of Massachusetts Regulations (CMR) 9.05, Department Internal

Debt Collection Obligations, discusses diligent efforts for collecting, dunning notices, and collection agencies, as follows:

Departments are responsible for making diligent efforts to collect legislatively authorized accounts receivable and debts due the State. Departments shall maintain detailed records for all accounts receivable; debts and other legislatively authorized charges for goods and services.

Moreover, according to 815 CMR 9.05 (2):

(d) Dunning Notices. If the initial bill is not paid in full by the debtor by the payment due date, and the debt has not been disputed by the debtor, a Department must demonstrate diligent efforts to collect the debt. Diligent efforts shall include at a minimum, but shall not be limited to, three written billing and dunning notices in addition to the initial billing, and a final notice as follows....

(f) Final Notice. The final 90 days past due notice outlined in 815 CMR 9.05(2)(d)4 shall contain language notifying the debtor that the debt has been referred for either intercept or to a Collection Agency for collection, or both.

The standard dunning notice developed by OSC for outstanding debts for more than 90 days is as follows:

Please be advised that your account has been deemed delinquent for failure to pay and has been referred for assessment of late charges, intercept of state payments, including state tax refunds under MGL [Chapter] 62D, and referral to a collection agency under MGL [Chapter] 7A and 815 CMR 9.00 Multiple Notices of your right to dispute this debt or submit a written request for a MGL [Chapter] 30A hearing have previously been provided. Please call the contact person for further information.

The Commonwealth must continue to enhance and improve its non-tax revenue base and its billing and collection procedures. In 1987, the Office of the State Auditor (OSA) undertook a similar review of non-tax revenue collection and monitoring procedures. During that audit, we reviewed activities at 39 departments, identified \$657 million in revenue enhancement opportunities, and made specific recommendations in conjunction with several other state departments, particularly the OSC, that resulted in several initiatives that have been very successful. Several of the revenue enhancements and billing and collection initiatives of the Commonwealth are detailed below:

BARS: The Commonwealth established the Billing and Accounts Receivable Subsystem (BARS), a statewide centralized automated billing and collection subsystem fully integrated into the Massachusetts Management Accounting and Reporting System (MMARS). BARS provides

decentralized access to Commonwealth departments while also providing for uniform non-tax revenue processing. Departments may use BARS to administer the Commonwealth's non-tax revenue billing process. BARS provides departments a mechanism to bill, collect revenue, provide customer statements, send delinquent notices to customers, and initiate the collection and intercept systems established by the Commonwealth. Moreover, the BARS system will automatically track and age all outstanding accounts receivable balances, and historical billing information can be tracked for all departments' billings, which is known as "detail reporting".

Although departments may have an independent accounts receivable system, they are required to use BARS to provide monthly accounts receivable information to the OSC. For departments that maintain their own system, the OSC reviewed each system during BARS implementation to determine whether they met the new standards for reporting accounts receivable data. Each month these departments enter the summary transactions that represent the total of the month's billing and collections as an adjustment to their accounts receivable balances on the BARS subsystem, which is known as "summary reporting." Summary reporting does not provide an aging of the receivable balance, only an adjusted balance each month. No historical information is contained within BARS; each agency is responsible for maintaining and monitoring its aged receivables.

The OSC issued policy Memorandum No. 315 on August 28, 2001 and Memorandum No. 318 on January 14, 2002, which provide additional information regarding debt collection, dunning notices, intercept, earned revenue, and account receivable activity. These memorandums set forth the following policies:

Memorandum No. 315 states, in part:

- *Departments are required to use BARS, to report all earned revenue/accounts receivable activity either in detail or summary fashion.*
- *Departments with an OSC approved delegated accounts receivable system may continue to post "summary" receivables on BARS, but must do so in accordance with this updated guidance. During this fiscal year, OSC will begin to review all delegated accounts receivable systems to ensure compliance with accounting standards.*
- *Revenue Decrease (RD) transactions in excess of \$100,000 will result in the RD processing to a PEND5 status [requiring OSC approval]. RD's will not be used to record uncollectible amounts; departments will transmit a Write Off transaction (WO)*

request to the Office of the Comptroller Revenue Bureau to properly record uncollectible amounts.

- *Departments will be required to prepare a mid-year Summary Aging Receivable Report beginning in FY 02 [fiscal year 2002] which details the age of all receivables contained in the BARS summary receivable.*

Memorandum No. 318 provides additional information on changes that have been made to improve debt collection practices and to provide departments with the tools they need to collect overdue debt owed the Commonwealth in an efficient and timely manner. The changes are as follows:

- The most significant changes in the regulation are amendments to 815 CMR 9.00 that allow debts to be sent simultaneously to both the Payment Intercept Program and to a debt collection agency. In the past, a debt would have to be processed unsuccessfully through the intercept process before it could be sent to a debt collection agency. Debt collection agencies have been notified that they have the right to refuse to accept a debt that is also being processed through intercept. However, if the debt collection agency accepts the debt, and the intercept process successfully collects the debt prior to the collection agency, the debt collection agency is not entitled to any compensation. This new process is consistent with recommendations made by departments to most effectively collect debts.
- Eleven debt collection agencies have been selected for the new debt collection contract, which can be used by all eligible entities. A Debt Collection Contract Agreement must be signed between a department and a debt collection agency under this new Debt Collection Contract if the department intends to use debt collection services. Net collections are not authorized under this Debt Collection Contract (that is, the debt collection agency may not deduct its payment for services from the amount transmitted to the Commonwealth). OSC approval is required for all contingent fee payments (based on a percentage of the ultimate recovery) to a collection agency.
- Changes in the BARS automated billing and dunning notices text stipulate that the debtor has 15 business days to remit the owed amount, dispute the debt, or submit a written request for a hearing under Chapter 30A of the General Laws. Previously, BARS notices gave the debtor 21 calendar days to respond. The change more accurately reflects the business practices of departments. In addition, the text in the billing and dunning notices now include specific citations of state statute governing the various collection mechanisms mentioned in the notice (Chapter 62D and 7A) and the citation governing the debtor's right to a hearing (Chapter 30A) unless exempted by other overriding law.
- The Payment Intercept Program for debt collection was enhanced to permit other departments and state-funded institutions of higher education that do not use BARS billing to also participate in the program. The intercept program can now accept a file of debt to be matched against state payment systems and return a file of data to the department or school detailing the intercepts that have occurred. A secure Web application serves as the vehicle for data transfer.

- The Department of Revenue (DOR) has established a debt size minimum of \$50 for delinquent debts being referred to MASSTAX for possible tax refund intercept.
- The OSC's legal counsel has determined that BARS remittance advices must contain an address to which the debtor can send a written request for a hearing under Chapter 30A of the General Laws. In order to comply with this requirement, departments are being contacted by their OSC BARS liaisons to obtain the address.

In addition, Memorandum No. 318 reminds departments of certain important existing policies regarding debt collection activities, as follows:

- Billing and dunning requirements are contained in 815 CMR 9.05(2), Department Internal Debt Collection Obligations, which defines procedures and time periods that departments must adhere to regarding initial billing and subsequent dunning notices for authorized accounts receivable.
- Debt and debtor information is of a highly personal nature, and departments are required to keep all information related to debts and debtors confidential.
- Contact information should be accurate and up to date. When an intercept occurs, a contact name/office and telephone number for the department owed the debt is printed on the notice sent to the debtor. Debtors are instructed to call the contact person/office at the department with questions regarding the intercept or for information about where to submit written requests for a Chapter 30A hearing, as provided for under Chapter 62D of the General Laws.
- Using BARS to report all earned revenue/accounts receivable activity in "detail" or "summary" fashion. OSC Policy Memorandum No. 315, issued on August 28, 2001, clarifies certain recording and reporting policies with regard to earned revenues/accounts receivable. Departments are required to use BARS to report all earned revenue/accounts receivable either in detail or summary fashion. Departments with a CTR approved delegated accounts receivable system may continue to post summary receivables on BARS, but must do so in accordance with this updated guidance.

Debt Collection Program: A debt collection program was established authorizing private debt collection agencies to pursue delinquent debt owed the Commonwealth. The OSC has promulgated regulations pursuant to the use of collection agencies in 815 CMR 9.03, which states:

The debt collection services provided pursuant to 815 CMR 9.00 shall be available for debts owed to a Department of a non-tax revenue nature, including but not limited to legislatively authorized fines, fees, licenses, permits, interest income, assessments, third party payments, and any other type of receivable that is capable of being collected with the exception of revenues specifically governed by separate statutes such as revenues from taxes, lottery operations, State investments, federal grants and reimbursements and Medicaid vendor overpayments.

From July 1, 1990 to June 30, 2003, the debt collection program has located and collected approximately \$54.9 million for the Commonwealth.

Payment Intercept Program: Approximately eight years ago, the OSC implemented the Payment Intercept Program, which is a process that will match eligible payments to delinquent receivables for organizations and individuals who function as both vendors and customers to the Commonwealth. A payment from the Commonwealth to a vendor or customer that has an outstanding debt due to the Commonwealth will be used to offset the debt, either in part or in whole, until the delinquent receivable is paid off. From July 1, 1994 to December 31, 2003, the intercept program has collected \$33.7 million (see Audit Result Number 2).

Revenue Enhancement Programs:

Revenue Maximization (RevMax) Program: In fiscal year 1990, pursuant to the enactment of Chapter 29, Section 29E, of the General Laws, the OSC began engaging in contingency-fee based contracts for non-tax revenue maximization projects. The Revenue Maximization (RevMax) Program law allows departments to engage in competitive procurements for expert services that will realize additional revenues for the Commonwealth. Payments made to the vendor are contingent upon realized revenue and must be made from the revenue generated by the revenue maximization effort.

During fiscal year 2003 the RevMax Program:

- Identified expenditures currently made by local entities that qualify for Title XIX or Title XXI Medicaid reimbursement that had not been claimed for reimbursement to date. (Titles XIX and XXI of the Social Security Act permit local entities to assist the Medicaid Single State Agency in the administration and delivery of medical services under the Title XIX and XXI medical assistance programs.) In addition, the cost identification claims are prepared and forwarded for Medicaid-eligible clients receiving Medicaid covered services. This project will identify the following types of qualifying expenditures: (1) public health expenditures made by local governments; (2) School-based local government administrative and program expenditures, and (3) local administrative and program costs incurred that are associated with the delivery of Medicaid services.
- Sought to increase the recovery of medical service costs paid by the Division of Medical Assistance that may be covered by other insurers by identifying suspect paid claims, conducting audits, and performing third-party health insurance appeals and recovery

services. In addition, a greater number of provider types will be examined for suspect claims practices than are currently reviewed.

- Performed the activities of third-party identification, verification, and recovery of funds from third parties who are liable to pay money due to an accident, trauma, injury or other loss incurred by a MassHealth or DTA applicant or recipient. The project pursues the Commonwealth's available subrogation rights for both financial assistance and medical assistance provided on behalf of individuals and/or families.
- Identified, verified, and recovered payments for medical services paid by the Division of Medical Assistance. In general, recovery may be made from a member's probate estate after the member dies, as well as from proceeds of the sale of real estate that is sold during the member's lifetime and against which the Division of Medical Assistance has placed a lien. This will also entail the development of a new software application to facilitate the estate recovery process.
- Assisted the Division of Medical Assistance in identifying possible overpayments resulting from fraud or abuse perpetrated by providers, and recovering any such overpayments. General research, specific review and analysis of provider and payment patterns, and the examination of individual provider billing history and claims will achieve this project goal.

During fiscal year 2003, 19 RevMax projects generated approximately \$236 million in gross optimized revenue. Since the inception of the program, 12 agencies have generated \$1.3 billion through June 30, 2003.

Revenue Optimization (RevOpt) Program: In fiscal year 1996, pursuant to the enactment of Chapter 38, Section 309, of the Acts of 1995, the Executive Office for Administration and Finance began engaging in contingency-fee based contracts for non-tax revenue optimization projects. The RevOpt Program law enhanced the Chapter 29, Section 29E, contingency language in that it authorized a "department incentive distribution" for departments that successfully engaged in non-tax revenue optimization projects. Should the Commonwealth meet its incentive goals, participating departments may be paid a proportionate share of those revenues. Some examples of successful revenue optimization projects are as follows:

- In fiscal year 1998, the Department of Mental Health (DMH) sponsored a project to revise rates of payments historically used to reimburse the provision of rehabilitative services rendered in DMH-operated or -contracted residential programs. The historical rates significantly under-reimbursed DMH for these services, and the revision brought the rates up to date.

- In fiscal year 1999, the Department of Correction (DOC) sponsored a project that was administered by the Federal Bureau of Justice Assistance, approving reimbursements for correction expenses associated with qualifying aliens. DOC had received reimbursements for these expenses since fiscal year 1995. The fiscal year 1999 revenue projection has been increased from \$7 million to \$21 million. The significant increase is largely attributable to a new DOC research department and a significant increase in the quality of data. The improved data allowed for better coordination with the Immigration and Naturalization Service (INS).
- In fiscal year 2002, the Department of Mental Retardation (DMR) sponsored two projects. The first project claimed Medicaid reimbursement related to waiver services for CommonHealth clients. The Health Care Reform Expansion supports these reimbursements. The second project claimed reimbursement for Federal Financial Participation (FFP) case management services for CommonHealth clients. The Health Care Reform Expansion supports these reimbursements.
- In fiscal year 2002, the Department of Social Services (DSS) sponsored a project that claimed IV-E reimbursement for the development of the rates to build new foster care and bridge homes.
- In fiscal year 2002, the Massachusetts Rehabilitation Commission (MRC) sponsored a project that claimed Medicaid reimbursement for clients in jeopardy for being placed in nursing homes or hospitals.
- In fiscal year 2002, the Office of Child Care Services (OCCS) sponsored a project that generated \$979K in gross optimized revenue. This project claimed IV-E reimbursement for basic and teen childcare services not covered by the Child Care Development Block Grant (CCDBG).
- In fiscal year 2003, the Mass Highway Department (MHD) sponsored a project that serviced lease arrangements for the construction and installation of fiber optic communication cables on MHD property within Massachusetts.

The RevOpt Program has been reauthorized annually since its inception. However, the RevOpt Program was not included in the General Appropriation Act for fiscal year 2004 and therefore the program has not been reauthorized. Since the program's inception through fiscal year 2003, 40 departments have sponsored 66 projects generating approximately \$254 million in gross optimized revenue.

From July 1, 1990 to June 2003, the RevOpt and RevMax Programs have authorized 100 revenue projects that have increased gross revenue collections of approximately \$1.6 billion.

Audit Scope, Objectives, and Methodology

The objective of this review was to review and analyze the Commonwealth's accounts receivable and determine whether accounts receivable are accounted for, recorded, reported, monitored, and efficiently and effectively collected, and whether departments are in compliance with applicable laws, rules, and regulations.

Our review's scope and methodology encompassed the following:

- We focused primarily on departments that generate non-tax revenue and report through MMARS, with particular attention placed on departments that report significant accounts receivable balances older than 90 days.
- We reviewed MMARS reports that detailed aging of accounts receivable balances, looking for any unusual trends such as large increases or decreases over a three year period, or balances that did not change over the same period. This included the MMARS Statewide Summary Aging Report (RPT 432B) and various Data Warehouse queries.
- We reviewed the Commonwealth's Annual Financial Report (CAFR) for the last six years. We compared trends reported over that period for the accounts receivable balances and allowance uncollectibles. We reviewed selected annual agency data supplied to the Office of the State Comptroller (OSC) relating to its year-end accounts receivable balances, which are used to generate the CAFR.
- We conducted a telephone survey for 148 state departments to determine the type of revenue generated by each agency and whether these departments report accounts receivable information to the OSC (See Appendix II).
- We analyzed various queries from the Commonwealth's information warehouse and various MMARS accounts receivable aging reports.
- We visited the Department of Mental Retardation (DMR), the Department of Revenue (DOR), and the Registry of Motor Vehicles (RMV) regarding the billing and revenue procedures used at each agency.
- We met with officials and staff of the OSC's Revenue Department, who provided us with OSC accounts receivable guidance, directives, and correspondence to departments, including Accounting Memorandums No. 315, dated August 28, 2001, and No. 318, dated January 14, 2002, which supply guidance to all state departments on billing and accounts receivable issues.
- We reviewed and analyzed the Mid-Year Summary Aging Reports as of December 31, 2002 and 2003.

- The OSC provided us with, and we reviewed and analyzed, three reports: one that detailed historical billing information for eight state departments, one that listed each agency and the amount of uncollectible revenues written-off during the last eight years, and one that listed tax or warrant payments totaling \$33.7 million that would have been paid to individuals or corporations that owed the Commonwealth money but instead were “intercepted” since 1995. We also discussed various Commonwealth accounts receivable policies, procedures, directives, and reports with OSC officials and staff.
- We reviewed past OSA audit reports that identified various state departments that needed to improve their billing, collecting, depositing, and monitoring of non-tax revenues.
- We collected data on the Revenue Maximization and Revenue Optimization programs, which are presented in the Background section of the report.

Our audit was conducted in accordance with applicable generally accepted government auditing standards. We conducted an accounts receivable comparison and trend analysis and audit tests encompassing the past eight fiscal years through June 30, 2003. We also updated information in certain areas to include fiscal year 2004 information for the areas we tested and reviewed.

AUDIT RESULTS, REVIEWS, AND OBSERVATIONS

1. ACCOUNTS RECEIVABLE ISSUES AND REVENUE ENHANCEMENT OPPORTUNITIES IN PRIOR AND ONGOING AUDITS.

In fiscal year 1988, the Office of the State Auditor (OSA) issued a report on the controlling and monitoring of non-tax revenue (Audit Report No. 88-5014-9). This audit report disclosed the need for state departments to establish new monitoring systems that identify revenue-producing events and monitor the collection of receivables from their point of origin. The report demonstrated the need for state departments to develop structured collection procedures and to clearly establish levels of authority and approval to write off uncollectible accounts only after diligent and sufficient controlled collection efforts. The audit report also demonstrated the need for the timely billing, rebilling, collecting, depositing, recording, and reporting of non-tax revenue to afford the Commonwealth the opportunity to manage its cash collection in a more economical and efficient manner.

Since this report was issued, many statewide improvements have been implemented with the assistance of the Office of the State Comptroller (OSC). However, several agency-specific audits issued by the OSA and audits that are currently ongoing disclosed the continued need to improve upon the billing, collecting, depositing, and monitoring of non-tax revenue at the agency level. These past and ongoing audits reflect some of the historical problems the Commonwealth has had with departments' management of accounts receivable. These reports and follow-up reviews disclosed that the thirteen state departments included in our review lacked adequate management of receivables totaling over \$175 million relative to internal controls, procedures, records, and systems. In general, these reports indicated that many state departments:

- Had ineffective collections efforts, including delayed activities to collect past-due amounts.
- Did not utilize the Commonwealth's intercept process to recoup past-due amounts.
- Had inadequate internal controls over recordkeeping and accounting for past-due accounts.
- Did not seek legal action or sanctions.
- Had inconsistent application of procedures for submission of write-offs to the OSC and a lack of documentation to support the basis for the write-offs.

- Delayed invoicing for services provided by the Commonwealth.
- Did not cancel services being provided by the Commonwealth for non-payment.

The specifics of these audit reports, the follow-up audits of these reports (if applicable), and the ongoing audits regarding accounts receivable and revenue enhancements are described as follows:

- **Reports on Certain Activities of the Massachusetts State Lottery Commission (Audit Reports No. 99-0089-3, No. 2002-0089-3S and No. 2003-0089-11S):** Audit report No. 99-0089-3 disclosed that the Massachusetts State Lottery Commission's (MSLC) settlement process for collecting its cash receipts from its sales agents was too lengthy and resulted in untimely collections, shortages, and a loss of unremitted cash. As a result, there was \$15.1 million in undeposited cash sales held and owned by sales agents as of January 26, 1999, of which \$12.8 million may be uncollectible because of inadequate collection policies and practices that allow improper use, shortages, or thefts by MSLC sales agents. Our follow-up report No. 2002-0089-3S revealed that improvements were still needed as of August 15, 2001, as MSLC was owed over \$10 million from 1,232 terminated or suspended agents and \$8.9 million from 1,051 sales agents that was outstanding for over 90 days. Because MSLC was not exercising due diligence and complying with its policies and procedures relative to the collection of accounts receivable, there was inadequate assurance that millions in receivables owed MSLC will ultimately be collected and instead will be written off as bad debt.

We issued a transition audit of MSLC (Audit No. 2003-0089-11S) and determined that as of June 30, 2002, MSLC reported that sales agents owed a total of \$9 million, of which \$2 million was outstanding over 90 days. Prior audits identified that MSLC had ineffective debt collection procedures for lottery ticket sales agents and was not adhering to its internal policies and procedures relative to the collection of millions in outstanding accounts receivable. As a result of our prior audit, MSLC wrote off \$13 million in bad debt from fiscal year 1999 to fiscal year 2002.

- **Reports on Certain Activities of the Department of Environmental Protection (Audit Reports No. 97-0456-3 and No. 2000-0456-7S):** Our prior audit of DEP disclosed that the annual accounts receivable balances reported to the OSC on generally accepted accounting principles (GAAP) documents were inaccurately stated. The prior audit report also disclosed that DEP did not have written internal control procedures and appropriate management monitoring, could not provide supporting accounts receivable documentation, did not interface its internal accounts receivable system with BARS to comply with OSC requirements, and needed improvements in the processing of cash receipts against appropriate receivables. In response to the issues, DEP conducted a review of its waste-site cleanup cases and those involving fines and penalties levied by DEP. As a result, over \$17.7 million of outstanding accounts receivable were determined by DEP to be uncollectible and were written off by the OSC.

Our follow-up review (No. 2000-0456-7S) disclosed that DEP has taken some corrective actions. Specifically, DEP converted its in-house accounts receivable systems to the Commonwealth's BARS system and was able to support GAAP accounts receivable balances filed with the OSC for the fiscal years ended June 30, 1999 and 2000.

However, our follow-up review disclosed that DEP needs to improve its collection and proper reporting of uncollectible past-due accounts receivable; lacks controls over the reconciliation, collection, and write-off of uncollectible past-due summary accounts receivable balances for annual compliance fees; and has not complied with OSC accounts receivable credit-balance refund requirements.

Our review of the Commonwealth's BARS system disclosed an outstanding accounts receivable balance of \$18,973,922 due DEP as of May 16, 2001. We identified 2,713 accounts with balances greater than \$1,000 whose combined dollar value due amounted to \$18,676,654 (98%) of DEP's total outstanding balance. Approximately \$12.9 million of the balance due had been outstanding for more than two years. Only \$1.3 million had been referred to a debt collection agency or had payment plans established for them by DEP staff, and DEP had collected only \$155,785 of the \$1.3 million. As of March 21, 2003, DEP's total BARS accounts receivable balance increased to \$24,592,603 from \$18,973,922, or \$5,618,681 since May 16, 2001. DEP's Bureau of Waste Site Clean-Up Fund (BWSC) and Annual Compliance Fee Fund (ACF) balances, \$18,537,313 and \$4,336,307 respectively, make up 93% of DEP's total outstanding receivables.

Moreover, our review of DEP's use of "summary" receivables disclosed that, contrary to annual GAAP Instructions issued by the OSC, DEP did not perform a reconciliation of four summary accounts receivable totaling some \$1.9 million to its subsidiary listing of debtors. Furthermore, DEP's summary receivable events have not been billed by DEP since their initial billings under DEP's in-house accounts receivable system. As a result, the majority of the balance had not been collected over an eight-year period (1992-2000), and the possibility of collecting these fees due the Commonwealth has been greatly diminished. A subsequent review of DEP reported BARS information revealed that as of March 21, 2003, DEP's ACF still reported \$1,863,745 for its four summary accounts receivable over five years old.

- **Report on Certain Activities of the Department of Industrial Accidents (Audit Report No. 99-5051-3):** Our audit indicated that the Department of Industrial Accidents (DIA) did not collect all fines imposed on employers, did not assess employers the full amount owed, and had inadequate collection procedures. As a result, during the period July 1, 1993 to December 31, 1997, DIA did not collect over \$4.4 million in fines imposed on employers that had been issued Stop Work Orders (SWO) and did not assess an estimated \$17.8 million in potential additional fines. Additionally, \$2,110,303 in uncollected debt for calendar year 1998 was written off without an aging or analysis of the likelihood of collections for specific accounts.

Preliminary results from our follow-up audit disclosed that as of June 30, 2002 DIA had \$25,648,000 in outstanding accounts receivable. Of this amount, \$6,683,128 (26%) represented Stop Work Order (SWO) fines/penalties that had not been paid by companies

lacking workers' compensation insurance for its employees. Our preliminary results also indicated that during the period July 1, 1999 to June 30, 2002, DIA did not properly assess, bill, and collect SWO fines required from 653 companies. During this period DIA billed the 653 companies fines totaling \$3,086,250 and collected approximately \$140,000 or 5% of this amount. Although the majority of these fines remained unpaid, as of June 30, 2002 in excess of \$40 million in potential additional fines had not been billed by DIA. Moreover we determined that the DIA did not assess and bill an additional 1,582 SWO's issued during this same period because the DIA had not determine whether these SWO's were valid, i.e., companies were in business, companies had employees and that companies did not have workers' compensation insurance for its employees. Our test of 100 (of the 1,582 employers issued SWO's) revealed, that as of January 2004, 12 companies were listed on local phone directories on the Internet and therefore appeared to be in business. Accordingly, as of June 30, 2002 we estimate that (for these 12 companies) perhaps an additional \$1 million in fines could have been billed by DIA.

- **Reports on Certain Activities of the Soldiers' Home of Holyoke (Audit Reports No. 2001-0064-4C and 2003-0064-3S):** Our review of the Soldiers' Home of Holyoke (SHH) accounts receivable revealed that management controls needed to be strengthened to improve the reliability and availability of the billing and accounts receivable system billing process. Our audit revealed that billing lapses for third-party billing occurred between September 1998 and December 1999 as a result of a complete system failure of SHH's mainframe computer. As a result, approximately \$2 million of patient billings for fiscal years 1999 and 2000 had not been recorded in or received by the Commonwealth's General Fund. Although limited billings had been initiated, the billing function, by and large, remained inoperable for approximately 16 months. However, SHH indicated that it had a plan in place to update its receivables.

During our follow-up audit (Audit Report No. 2003-0064-3S) of SHH we identified potential audit issues with SHH's accounts receivable system. SHH still has not taken sufficient steps to ensure proper accounting and reporting of its accounts receivable. Specifically, SHH does not prepare monthly trial balances of accounts receivable, post billings, collections and monthly accounts receivable balances to the Commonwealth Billing and Accounts Receivable Subsystem (BARS) and reconcile its accounts receivable balance monthly. Consequently, SHH had a \$587,816 variance within its accounts receivable records. Also, SHH stated that it has taken corrective action regarding accounts receivable whereby it has reconciled and properly reported its accounts, sought assistance from the OSC, and assigned an additional staff person. In addition, SHH reported to the OSC, via its GAAP Report, that its accounts receivable balance as of June 30, 2002 totaled \$151,793. However, our review of SHH financial records indicated that insurance companies and SHH clients owed SHH a total of \$2,067,169 as of June 30, 2002. Thus, a difference of \$1,915,376 exists between the amount that SHH reported on its GAAP Report and the amount carried on its internal financial records.

- **Report on the Processing and Collection of Civil Motor Vehicle Infractions (Audit Report No. 90-5010-3):** This audit reviewed the processing of civil motor vehicle infractions (CMVIs) at each of the 69 district courts of the Commonwealth. A total of

210,366 citations of the 1,362,628 citations issued during the review period were unprocessed and in default at the time of our review. These citations represented as much as \$16,356,781 in revenue. Moreover, the audit noted that 63 of the 69 courts were not in compliance with Administrative Bulletin No. 3-86, since they were not processing their CMVIs in a timely manner; were not always assessing and processing required late charges; and needed improvements in the management of internal controls over the processing and collection of CMVIs.

- **Report on the Department of Transitional Assistance's Transfer of Court-Held Receivables (Audit Report No. 99-0310-3):** This audit revealed that the Department of Transitional Assistance (DTA) improperly wrote off approximately \$37.5 million in court-held transitional assistance fraud receivables. Specifically, in March 1997 DTA informed the courts collecting transitional assistance fraud judgments on its behalf that it intended to write off the accounts receivable balances for almost 6,000 individual cases statewide. However, DTA did not receive approval to do so from the OSC, contrary to state regulations. The audit also revealed discrepancies between DTA records and corresponding information maintained by individual courts. Also, the DTA utilized the Receivable Decrease transaction (RD) and not the proper Write Off Request Form (WO), which must be approved by the OSC.
- **Report on Certain Activities of the Child Support Enforcement Program (Audit Report No. 99-0142-3):** The audit disclosed that the Department of Revenue's Child Support Enforcement Division (CSED) lacked the necessary controls to ensure the accuracy of its automated management system's balances for amounts due from noncustodial parents. In a significant number of cases we tested, detailed information on arrears balances did not agree with summary records. In addition, because of insufficient case monitoring, arrears balances for certain cases that should have been closed were not, resulting in inaccurate balances. In response to our report, CSED indicated that there were some residual arrears balance discrepancies and that it had corrected the system to prevent recurrences.
- **Audit of the Department of Revenue's (DOR) Underground Storage Tank Petroleum Products Clean-Up Fund (Audit Report No. 2003-1402-7S):** Our review disclosed that according to the Commonwealth's BARS, as of September 16, 2002 the Underground Storage Tank (UST) Fund had uncollected tank fee balances totaling \$1,048,868, ranging in age from three months to 11 years and three months, and ranging in amount from \$.01 to \$28,294.49. Our review noted discrepancies in the balances because of inaccurate or non-updated tank information in the State Fire Marshall's database. These inaccuracies were due to owners or operators not filing the Department of Fire Services registration of underground storage tank form (FP-290) with the State Fire Marshall. Other shortcomings noted in the accounting of the UST Fund's accounts receivable included an owner being billed for tanks that were never installed; two people being billed for the same facility (same tank); and one owner being billed even though the UST Fund's database indicated that the underground tanks had been removed.

The fiscal year 2002 and 2003 Single Audits of the Commonwealth disclosed accounts receivable issues at the Division of Medical Assistance, Department of Mental Retardation, Department of Public Health, Department of Employment and Training, Massasoit Community College and Salem State College. The issues that were disclosed at these departments are as follows:

- **Division of Medical Assistance (DMA):** The fiscal year 2002 Single Audit disclosed that DMA's recording of aged accounts receivable needed to be reviewed on a timelier basis. Eight of the 10 BARS transactions tested for individuals that are eligible for MassHealth/Family Assistance and have to pay a premium were over 90-days old. The total receivable overstatement was \$606. DMA personnel indicated that the likelihood of collecting the receivables is remote. In the preceding two years, the Single Audit Report recommended that DMA improve its tracking and recording of receivables, uncollectibles, and write-offs. DMA indicated that it was working with the OSC to develop policies and procedures that will result in more accurate tracking and recording of receivables, uncollectibles, and write-offs.

The fiscal year 2003 Single Audit disclosed that DMA's corrective action plan was implemented in February 2003. Open receivables are reviewed on a quarterly basis, and action was taken to review aged receivables by fiscal year in order to submit requests for write-off in an orderly fashion. However, the fiscal year 2003 audit disclosed that three of six BARS transitions selected for review were not likely to be collected and should be written off. The six selections represent receivables due the DMA from an estate, a health insurance carrier, or individuals who received Mass Health Family Assistance benefits. The accounts receivable overstatement for these three cases is \$803,380. The Single Audit report indicated that the age of these invalid receivables and the number of errors found in last year's audit (fiscal year 2002) indicates that DMA is not performing a timely review of these amounts and that there is a significant risk of overstatement of the receivable balance. In the preceding three years, the Single Audit reported that DMA needed to improve its tracking and recording of receivables, uncollectibles, and write-offs and recommended that it work with its contractors to obtain aging reports of its receivables and the individual claims that were deemed uncollectible and those to be written-off. DMA personnel explained that they were working with the OSC to develop policies and procedures that will result in more accurate tracking and recording of receivables, uncollectibles, and write-offs.

Also, the fiscal year 2003 testing disclosed that there was not proper segregation of duties in the processing of receivables transactions (increases, decreases, cash receipts). One person prepared, posted, and approved all of the receivable transactions tested. In response to the audit, DMA indicated that the accounting unit is assuming responsibility for improving the tracking and recording of receivables, uncollectibles, and write-offs, and will also implement the appropriate level of segregation of duties.

- **Department of Mental Retardation (DMR):** The fiscal year 2002 Single Audit disclosed that DMR needs to improve the collection of its accounts receivables. The Single Audit disclosed that one resident owed an outstanding balance of \$49,331 for room and board

charges as of July 23, 2002. DMR indicated that although DMR regulations allow for collection activity of unpaid charges, not all cases of non-payment have been pursued actively. In response to the audit, DMR indicated that it would step up its efforts to collect outstanding receivables over the course of next year.

The fiscal year 2003 Single Audit follow-up to this result disclosed that as of July 23, 2003, the receivable balance totaled \$54,909, an increase of \$5,578. However, DMR could not provide adequate documentation to support its collection efforts and did not take steps to stop the receivable from accruing. In response to our audit, DMR indicated that it will implement policies and procedures that identify timeframes for collection activities that, if followed rigorously, will prevent further problems and allow tracking and recovery of outstanding balances.

- **Department of Public Health (DPH):** The fiscal year 2003 Single Audit of DPH disclosed that one of its hospitals was unable to provide supporting documentation for adjustments made to accounts receivable for charges due from patients and was not performing monthly reconciliations between the hospital's records and BARS. Our testing involved a review of two receivable entries (RE), both of which represented charges due from patients. One RE was in the amount of \$5,345,932, and the other was for \$29,979,323. DPH personnel stated that these REs originated in fiscal year 1996. DPH and the hospital indicated that it will conduct an analysis to determine all accounts receivable balances as of June 30, 2003; comply with OSC policies; and reconcile the hospital records to BARS monthly and maintain adequate supporting documentation for all entries.
- **Report on Certain Activities of the Department of Employment and Training (DET):** The fiscal year 2002 Single Audit disclosed that DET needed to improve its procedures for calculating the contributions and interest due for Universal Health Insurance (UHI) and for imposing penalties and fines against employers who are delinquent in filing their quarterly UHI reports or paying contributions due. DET overstated receivables by \$48,030 by billing employers for UHI contributions already paid and incorrectly calculating interest.

The fiscal year 2003 Single Audit disclosed that DET had taken partial corrective action as recommended last year. Specifically, DET conducted and documented a cost analysis on assessing penalties to employers for not filing the quarterly UHI, or for nonpayment of contributions due, and the results of the analysis indicated that the assessment of penalties was not cost effective. However, DET has not assessed penalties since the prior audit or made an effort, as recommended, to repeal Chapter 151A, Section 14G(g), of the General Laws, which requires DET to assess employers. DET (now the Division of Unemployment Assistance) will assess employers who fail to file the reports or forms required by MGL Chapter 151A Section 14G the penalties prescribed in MGL 151A, Section 14G(g).

- **Salem State College (SSC):** The fiscal year 2003 Single Audit disclosed that SSC was unable to provide adequate supporting documentation to support adjustments made to accounts receivable for tuition and fees, and was not performing monthly reconciliations between SSC records and the Commonwealth's Billing and Accounts Receivable Subsystem (BARS).

The testing involved a review of two Receivable Entries (RE). One transaction, in the amount of \$3,809,183, represented tuition, and the second, in the amount of \$12,334,512, represented fees. SSC could not provide a reconciliation substantiating these two entries. According to an SSC official, the two REs on the BARS system were “unrealistic figures” and the actual amounts owed, according to SSC’s General Ledger and Student Financials Module system, were \$1,530,381 for tuition and \$2,654,555 for fees, a total of \$4,184,936. As a result, SSC processed a Receivable Decrease (RD) in the amount of \$10,537,992.37 to adjust the June 30, 2003 BARS balance by decreasing the tuition by \$858,035.12 and the fees by \$9,679,957.25. In response to the audit, SSC indicated that it would revise the receivable to more accurately reflect the actual balance as indicated on SSC’s system, SSC staff would embark on an comprehensive training program on the BARS system, and timely and accurate levels of receivables would be reported on a monthly basis (see Audit Result No. 4 for more details on SSC’s accounts receivables).

- **Massasoit Community College (MCC):** The fiscal year 2003 Single Audit disclosed that MCC was not entering accounts receivable information into BARS in a timely manner. Further, MCC was not performing monthly reconciliations between its records and BARS. One RE in the amount of \$1,830,542.22 was tested. MCC officials stated that this was a summary RE that originated in fiscal year 1999 and represents student fees that are retained by MCC. Under the BARS subsystem, RE transactions may be classified as “summary receivables,” the details of which are maintained by the individual departments. In essence, a summary receivable represents a rolling balance of billings and collections for a particular revenue source, for which the original RE may have originated many years ago. As a result of not updating its receivables, \$1, 659,162 that should have been reflected at year end (June 30, 2003) on BARS was not. MCC, subsequent to year end, adjusted its accounts receivables on BARS to reflect a balance of \$3,489,704. In response to the audit, MCC indicated that it has hired two accountants and implemented the Banner/Student module system, which will provide the necessary information to correct the problem of late data entry and reconciliation to BARS.

In response to these audit results, departments indicated that they were in the process of taking corrective action or had taken corrective action regarding the accounts receivable issues disclosed in these reports. Departments should continue to be diligent with regard to the management of their receivables relative to internal controls, procedures, records, and systems.

2. RESULTS OF THE COMMONWEALTH’S PAYMENT INTERCEPT PROGRAM

From July 1, 1994 to December 31, 2003, 68 of the 76 departments that currently report on BARS used the Payment Intercept Program to collect \$33.7 million in debt owed to the Commonwealth, with the top four departments collecting \$25.4 million, as follows: Department of Revenue, \$11.3 million; Department of Transitional Assistance, \$10.1 million; Health Care Finance Committee, \$2.1

million; and Massachusetts Highway Department, \$1.9 million. The remaining 64 departments collected \$8.3 million through the intercept program.

The average age of MMARS receivable debt collected through the intercept program for fiscal years 1999 to 2003 was 251 days old. On a fiscal-year basis for the intercept program, OSC typically intercepts 55% of the current year's MMARS accounts receivable debt, followed by 30% of the prior fiscal year's receivable debt. The remaining 15% represents MMARS receivable debt of three years old or greater. Based on the percentages listed above, it is apparent that once a receivable becomes greater than two fiscal years old, the likelihood of collection of that debt diminishes greatly.

The intercept program continues to grow and be enhanced. Chapter 184, Section 8, of the Acts of 2002 allows cities, towns, and state authorities to also utilize the intercept program. In addition, Chapter 184, Section 196, of the Acts of 2002 specifically requires that the Division of Employment and Training, Department of Industrial Accidents, Department of Public Health (DPH), Group Insurance Commission, Secretary of the Commonwealth, and all state and community colleges use the intercept program. Some of these departments identified in the Act that are required to use the intercept program have historically had large, old, outstanding accounts receivable. For example, as of December 31, 2003, the Department of Industrial Accidents had a receivable balance of \$23,398,897 and the Department of Public Health had an outstanding accounts receivable balance of \$54,706,943.

Chapter 26, Section 625, of the Acts of 2003 (Fiscal Year 2004 Budget) requires that DPH and eight public institutions of higher education take the necessary steps to begin participation in the OSC's intercept program for overdue receivables. Also, this provision requires each agency of the Commonwealth and the public institutions of higher education to appoint an officer for coordinating the necessary steps to submit timely and sufficient information to the OSC so that the OSC may examine accounts and demands against the Commonwealth. The OSC, as required, certified to the House and Senate Committees on Ways and Means that DPH and six of the eight public institutions of higher education are actively participating in the Commonwealth intercept program and have designated an officer for coordinating the implementation of this law. However, the OSC indicated that Roxbury Community College (RCC) and Worcester State College (WSC) could not be certified as being in full compliance with the law's requirement because they have not

presented an implementation plan that would allow them to participate in the intercept program in the near future. The OSC has been in contact with RCC and WSC to encourage their participation and expects that their efforts will result in full cooperation so it will not affect their fiscal year 2004 appropriation.

Also, the OSC was required to report by March 15, 2004 to the House and Senate Committees on Ways and Means (per Chapter 26, Section 625 of the Acts of 2003) on the implementation of intercept program participation for DPH and the public institutions of higher education. The OSC was also required to include the estimate of the amount of overdue receivables for state departments and the public institutions of higher education in fiscal year 2004.

Departments that use the intercept program are efficiently and effectively managing and utilizing all the methods and means the Commonwealth has in collecting past due accounts receivables; while the departments that have not utilized the program may be missing opportunities to collect past due accounts receivables. These latter departments should utilize the intercept program in order to maximize the collection of past due accounts receivables, and RCC and WSC should continue to work with the OSC with regard to their participation in the intercept program.

3. FINANCIAL REPORTING OF REVENUE AND ALLOWANCE FOR UNCOLLECTIBLES

Each year the OSC prepares the Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30. This report, which is audited by a private accounting firm, is published annually in December. The publication of this report represents the conclusion of financial activity for the fiscal year and the final closing of the books of the Commonwealth in accordance with generally accepted accounting principles (GAAP) as defined for governments by the Government Accounting Standards Board. We reviewed the CAFR's financial data for the past six fiscal years, specifically noting any trends or large fluctuations in revenues, accounts receivable, and allowance for uncollectible balances.

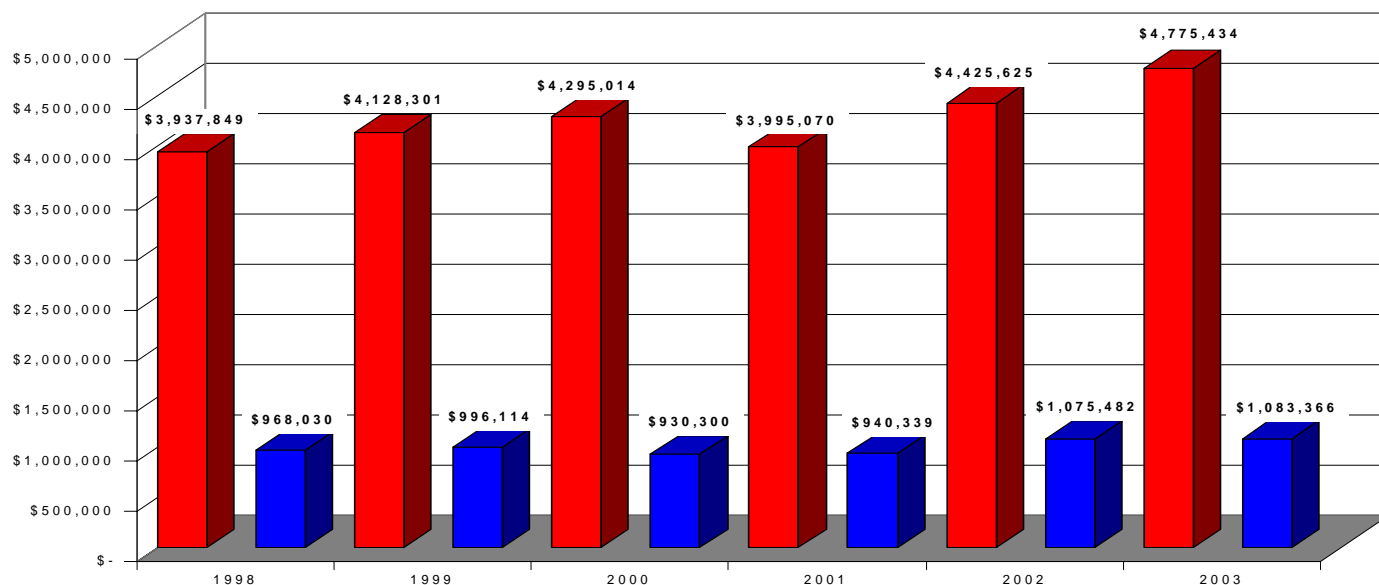
Revenues from various Governmental Fund sources have grown over the last six years, from \$31.2 billion in fiscal year 1998 to \$42.8 billion in fiscal year 2003, an increase of \$11.6 billion on a GAAP basis, or 37%. However, there was a significant drop from fiscal year 2001 to 2002 of approximately \$2.8 billion due to a decrease in tax revenues. Additionally, we noted that federal reimbursements

and grants, as well as taxes, have declined as the predominant source of revenue over the six-year period. In 1998, taxes, federal reimbursements, and grants represented 63.6% of total revenues, whereas in 2003 these sources of revenue represented only 53.1% of the total revenue. Assessments, licenses and registrations, fees, proceeds from notes and bonds, operating transfers, and other financing sources have grown to be a significant portion of the revenues generated by the Commonwealth, with lottery revenues remaining relatively constant over the six years. The following chart taken from the CAFR illustrates the trends relative to the composition of the Commonwealth's revenue and other financing sources (amounts in millions except for percentages).

	2003	%	2002	%	2001	%	2000	%	1999	%	1998	%
Taxes	\$ 15,091	35.3	\$ 14,428	39.6	\$ 16,803	42.8	\$ 15,695	41.1	\$ 14,321	43.0	\$ 14,033	44.9
Federal Reimbursements	5,522	12.9	5,267	14.4	4,716	12.0	4,496	11.8	4,213	12.7	4,385	14.0
Federal Grants	2,112	4.9	1,812	5.0	1,644	4.2	1,565	4.1	1,456	4.4	1,470	4.7
Lotteries	4,423	10.3	4,425	12.1	4,136	10.5	3,914	10.3	3,570	10.7	3,392	10.9
Assessments	645	1.6	572	1.6	590	1.6	462	1.1	546	1.6	514	1.6
Motor Vehicle Licenses/Registration	383	0.9	326	0.9	311	0.8	285	0.7	281	0.8	295	0.9
Fees, Investments Earnings	<u>2,331</u>	<u>5.4</u>	<u>2,178</u>	<u>6.0</u>	<u>1,885</u>	<u>4.8</u>	<u>1,776</u>	<u>4.7</u>	<u>1,433</u>	<u>4.3</u>	<u>1,394</u>	<u>4.5</u>
Sub-Total - Revenues	\$30,507	71.3	\$29,008	79.6	\$30,085	76.7	\$28,193	73.8	\$25,820	77.5	\$25,483	81.5
Proceeds of General Obligation Bonds	1,911	4.5	1,489	4.1	1,769	4.5	1,762	4.6	1,015	3.0	1,347	4.3
Proceeds of Special Obligation Bonds	-	0.0	12	0.0	-	0.0	-	0.0	-	0.0	100	0.3
Proceeds of Grant Anticipation Notes	-	0.0	-	0.0	600	1.5	602	1.6	319	1.0	-	0.0
Proceeds of Refunding Bonds	3,398	7.9	1,501	4.1	999	2.5	-	0.0	499	1.5	862	2.8
Proceeds from Capital Lease	-	0.0	10	0.0	31	0.1	9	0.0	9	0.1	15	0.1
Operating Transfers	6,981	16.3	4,454	12.2	5,566	14.2	7,502	19.7	4,555	13.7	3,338	10.7
Other Financing Sources	<u>0</u>	<u>0.0</u>	<u>3</u>	<u>0.0</u>	<u>206</u>	<u>0.5</u>	<u>106</u>	<u>0.3</u>	<u>1,056</u>	<u>3.2</u>	<u>104</u>	<u>0.3</u>
Sub-Total - Other Financing Sources	<u>12,290</u>	<u>28.7</u>	<u>7,469</u>	<u>20.4</u>	<u>9,171</u>	<u>23.3</u>	<u>9,981</u>	<u>26.2</u>	<u>7,453</u>	<u>22.5</u>	<u>5,766</u>	<u>18.5</u>
Total Revenues and Other Financing Sources	<u>\$42,797</u>	<u>100%</u>	<u>\$ 36,477</u>	<u>100%</u>	<u>\$ 39,256</u>	<u>100%</u>	<u>\$ 38,174</u>	<u>100%</u>	<u>\$ 33,273</u>	<u>100%</u>	<u>\$ 31,249</u>	<u>100%</u>

Amounts in millions

During the same six-year period, the Commonwealth's gross accounts receivable balances increased from \$3.9 billion to approximately \$4.8 billion, an increase of approximately \$900 million, or 23%. Of the total accounts receivable balance of \$4.8 billion for fiscal year 2003, \$2.1 billion represents tax accounts receivable, \$1.3 billion represents federal reimbursements, and the remaining \$1.4 billion represents departmental accounts receivable such as fees, fines, assessments, tuition, loans, and other agency charges for services. The graph below illustrates the changes in gross accounts receivable and allowance for uncollectible accounts over the past six years.



Source: Commonwealth of Massachusetts Comprehensive Annual Financial Reports (CAFR) Amounts in (000).

The total estimated allowance for uncollectible accounts receivable over the last six years has increased \$115 million, from \$968 million to \$1.1 billion, an increase of 12%. The estimated allowance for uncollectible accounts receivable represents an agency's best estimate of the future collectability of the accounts receivable. As of June 30, 2003, the estimated uncollectible amount of the total accounts receivable of \$4.8 billion is \$1.1 billion, or 23% of the amount owed. Annually, in preparation for the CAFR, the OSC provides departments with Generally Accepted Accounting Principles (GAAP) instructions for handling their accounts receivable and in calculating their allowance for uncollectibles for financial statement purposes. The GAAP instructions state, in part:

Departments are to use their best estimate of calculating an uncollectible amount. The methods the Comptroller finds acceptable are:

- *Use of a percent by aging category that corresponds to past collection or disallowance experience, e.g., 5% of the accounts receivable aged for 31-60 days, 10% for 61-90 days and 25% for over 90 days past due*
- *All amounts unpaid for more than a certain period, e.g., more than 120 days after the due date*
- *Reporting all items in debt collection status as uncollectible in combination with one of the above criteria.*

The following are the fiscal year 2003 accounts receivable balances reported as adapted from the CAFR's Note 4 to the Financial Statements.

Accounts Receivable	Taxes	Due from Federal Government	Loans	Other	Net Receivable
Governmental ¹	\$2,061,653	\$1,229,208	\$ 0	\$811,839	\$4,102,700
Business Type ²	<u>0</u>	<u>37,476</u>	<u>\$53,354</u>	<u>581,904</u>	<u>672,734</u>
Subtotal	\$2,061,653	\$1,266,684	\$53,354	\$1,393,743	\$4,775,434
Less: Allowance for Uncollectibles	<u>(311,671)</u>	<u>(7,023)</u>	<u>(7,257)</u>	<u>(757,415)</u>	<u>\$(1,083,366)</u>
	15.12%	0.55%	13.60%	54.34%	22.69%
Net Receivable	<u>\$1,749,982</u>	<u>\$1,259,661</u>	<u>\$46,097</u>	<u>\$636,328</u>	<u>\$3,692,068</u>

Amounts in thousands (000) Information provided by OSC and 2003 CAFR

¹General Fund, Special Revenue Fund and Capital Projects

²Unemployment Compensation and Institution of Higher Education

Reviewing the most recent CAFR, we noted that 54% or \$757.4 million of the \$1.4 billion in the accounts receivable "Other" category, was set up as an allowance for uncollectibles. The "Other" category is made up mostly of departmental accounts receivable. Based on our discussions with the OSC, historically five departments make up the majority of the allowance for uncollectible amounts. In the case of the "Other" category, the five departments are as follows: Department of Revenue, Department of Public Health, Department of Environmental Protection, Massachusetts State Lottery Commission, and Department of Transitional Assistance. Additionally, we have identified two other departments that have a high allowance for uncollectibles in fiscal 2003: the Department of Industrial Accidents and the Division of Employment and Training. These seven departments' allowance for uncollectibles amount to \$718.6 million of the \$1.1 billion in total allowance for uncollectibles, and make up 66% of the allowance for uncollectibles reported in the fiscal 2003 CAFR. The remaining 34%, totaling \$364.7 million, is made up of 41 departments (see Appendix

III). Listed below is a schedule of the seven departments and a brief explanation of the uncollectible amounts as reflected in the departments' fiscal year 2003 GAAP submissions to the OSC.

<u>Department</u>	<u>MMARS CODE</u>	<u>Gross Receivable</u>	<u>Allowance for Uncollectible</u>	<u>Percentage of Allowance for Uncollectibles</u>	<u>Revenue Type</u>
Department of Revenue	DOR	\$535,292	(\$506,856)	95%	Child Support
Department of Transitional Assistance	WEL	60,496	(21,713)	36%	Overpayments to clients
Department of Environmental Protection	EQE	21,615	(12,125)	56%	Fees and Permits
Department of Public Health	DPH	17,604	(9,167)	52%	Medical services to patients
Massachusetts Lottery Commission	LOT	8,085	(2,640)	33%	Lottery receipts
Department of Industrial Accidents	DIA	24,568	(8,367)	34%	Fines and fees
Division of Employment and Training	DES	<u>392,115</u>	<u>(157,754)</u>	40%	Health insurance overpayments
Totals		<u>\$1,059,775</u>	<u>(\$718,622)</u>		

Amounts in thousands (000)

Department of Revenue (DOR) Child Support

These past-due accounts receivable represent child-support payments that the Commonwealth is seeking as reimbursement from the noncustodial parent. Due to the uncertainty of collections, the DOR estimates the current year's allowance for uncollectible amount balance by reducing the gross receivable by the prior year's collection. Payments from noncustodial parents may not be collected due to their unemployment or the inability of the Commonwealth to locate them. These accounts receivable do not affect the Commonwealth's General Fund when the accounts are collected because they are forwarded to the custodial parent unless the custodial parent is on public assistance.

Department of Transitional Assistance (WEL)

These accounts receivable represent overpayments to clients on transitional assistance. The uncollectible figure is based on approximately 36% of the total collections owed to the Commonwealth. This percentage is predicated on previous year's collection experience.

Department of Environmental Protection (EQE)

Most of the past-due receivables for this department are from programs associated with hazardous material cleanup, toxic chemical reduction program, and clean air compliance. Much of these receivable amounts are potentially deemed uncollectible due to extensive litigation, bankruptcies, and older receivables, which only recently have been submitted to debt collection.

Department of Public Health (DPH)

The majority of past-due receivables for DPH consists of inpatient medical services for four public health facilities. In many cases patients are indigent and have exhausted their medical benefits and therefore are unable to make payment. The uncollectible portion of the receivable balance is calculated on prior year's collection data. Amounts in excess of 180 days are assumed by DPH to be uncollectible.

Massachusetts State Lottery Commission (LOT)

These past-due receivables represent funds owed the Commonwealth from sales agents.

Department of Industrial Accidents (DIA)

These past-due receivables are fines for those employers who do not have workers' compensation insurance. These employers would also owe the Commonwealth the amount paid by the trust fund for uninsured employees. The uncollectible amount represents those receivables that have been submitted to the debt collection program but have not been successfully collected. Through the debt collection program, the DIA has determined that some companies are no longer doing business in the Commonwealth.

Division of Employment and Training (DES) [now the Division of Unemployment Assistance]

This past-due balance consists mainly of unemployment insurance payments from employers and overpayments of benefits made to individuals receiving unemployment compensation. Additionally, a smaller portion of the past-due balance is for payments made for health insurance for those eligible for this program while on unemployment compensation. DET stated that in

some instances, there are liens placed on these employers for nonpayment as well as claims filed in bankruptcy cases, and that it has begun to utilize the Payment Intercept Program to attempt to collect some of these receivables.

Departments' allowances for uncollectible amounts have continued to increase over the past six years due in part to not writing off older accounts receivable that may truly be uncollectible. Departments appear to be leaving older receivables on their balance sheets in the hopes that the Commonwealth's debt collection or intercept programs will be able to recover some of these older amounts, or because of inattention.

Since the Commonwealth's allowance for uncollectible accounts receivable has increased over the past six years, departments that have been diligent in managing and monitoring their accounts receivables and allowance for uncollectibles should continue to do so. However, departments that have old accounts receivables outstanding should review their management and monitoring of accounts receivable and allowance for uncollectibles, make every effort to collect amounts past due, and write off uncollectible amounts, thus minimizing and lowering the allowance for uncollectible accounts receivables.

4. DEPARTMENTS REPORTING ACCOUNTS RECEIVABLE ON THE BILLING AND ACCOUNTS RECEIVABLE SUBSYSTEM IN "SUMMARY" AND "DETAIL"

With the inception of BARS in 1992, departments had the option of utilizing BARS as their billing and collection system or maintaining their own independent billing and accounts receivable system. Departments that use BARS as their accounts receivable system are considered to report receivables in "detail." Departments that have their own accounts receivable system and report their receivables periodically in BARS in one aggregate amount are considered to report in "summary." BARS reports all current and aged accounts receivable balances for a department. Each month, MMARS generates reports that provide both detailed billing information (Report 431A- Past Due Receivables Detail Report) and a monthly aging of accounts receivable balances (Report 432B- Statewide Summary Aging Report). The aged receivables are displayed in five categories: current, 1-30 days, 31-60 days, 61-90 days, and over 90 days past due. BARS reports all current and aged receivable balances for a department. As of the close of fiscal year 2003, 76 departments per the Statewide Summary Aging Report (RPT 432B) were owed \$451,309,296, of which \$387,038,473 (86%), is

classified as greater than 90 days past due. Below is a chart illustrating six departments, their types of revenue and receivable amounts totaling \$341,030,583 which represent 88% of the BARS receivables greater than 90 day past-due. This chart also indicates whether an agency reports on BARS in “summary” or “detail.”

Agency	Revenue Type	Type of Reporting	Amount
Division of Medical Assistance	Third-Party, Medicare, and Medicaid Insurance	Detail	\$ 96,390,274
Department of Mental Health	Health Services, Room and Board	Summary	44,430,712
Department of Public Health	Medical Services	Summary	58,242,492
Department of Transitional Assistance	Overpayments to Clients	Summary	61,210,876
Registry of Motor Vehicles	Vehicle Citations	Summary	56,271,319
Department of Industrial Accidents	Fines and Fees	Detail	<u>24,484,910</u>
Totals			<u>\$341,030,583</u>

Approximately 40 departments, including institutions of higher education, the Registry of Motor Vehicles, and the Department of Public Health, maintain their own independent accounts receivable system and report monthly on BARS in a “summary” fashion. For those departments that report in “summary,” the detail information such as account name, date the receivable was established, payment history, account number, and all other particular details of each individual account are maintained on the departments’ independent accounts receivable systems. Periodically, total dollar amounts of the aggregate accounts receivable “summary” are reported on MMARS. Originally these departments recorded an accounts receivable amount in the “current” category on BARS and the amounts progress, if not collected, through the 1-30 days, 31-60 days, 61-90 days, and over 90 days past-due categories. All future accounts receivable balances are entered only as adjustments to the original amount. At no time does the “summary” agency report a true aging of their receivables, as is the case with departments that report in “detail.”

During our review of departments that report in “summary,” we found that some departments did not update their accounts receivable balances on a monthly basis. For example, our analysis of the 432B reports revealed that Holyoke Community College had a \$217,728 receivable balance that had not been changed for nine quarters; Northern Essex Community College had not changed its

\$254,576 balance since the last quarter of fiscal 2001 until the second quarter of 2003; Salem State College (SSC) also had reported the same balance of \$18,412,795 for more than two quarters; and the Department of Correction had the same balance of \$937,612 for multiple quarters over the past three fiscal years. We also found that, based on our discussions with officials at SSC, the college's true open accounts receivable balance was approximately \$2 million dollars, and not the \$18 million dollars it reported in BARS (see Audit Result No. 1 for more details on SSC's accounts receivable). Additionally, as of November 20, 2002, the Registry of Motor Vehicles had reported an accounts receivable balance of \$56,836,182, when its internal system showed a balance of \$52,688,302, a difference of \$4,147,880. Because departments are not updating and reconciling their delegated systems with the summary receivable reported on BARS, the BARS system cannot provide an accurate amount or an accurate aging of the Commonwealth's receivables for all departments.

In accordance with Policy Memorandum No. 315 issued on August 28, 2001, the OSC is requiring departments to prepare and transmit a mid-year Summary Aging Receivable Report, as of December 31 of each fiscal year, that details the age of all receivables contained in the BARS summary receivable, by revenue source code. The OSC will use this report for its semi-annual reporting activity, and to ensure that departments are maintaining their internal revenue/receivables recording and accounting systems at the required level of detail.

The OSC has received a Mid-Year Summary Aging Receivable Report for fiscal years 2003 and fiscal year 2004 for departments that have summary accounts receivables. The OSC requested that each department review their current balances reported on BARS as of December 31, and each department is required to provide the OSC with an aging of the balance. Below is a summary of the aging of the balances.

Analysis of Aging	December 31, 2002	Percentage of Open Receivable	December 31, 2003	Percentage of Open Receivable	Increase/ (Decrease)	Percentage Increase/ (Decrease)
Open Receivable Amount (Per OSC)	<u>\$427,464,504</u>		<u>\$456,436,391</u>		<u>\$28,971,887</u>	
Aged Amount (Per Departments)						
1-30 Days	\$69,969,285	16%	\$84,512,238	19%	\$14,542,953	3%
31-60 Days	21,869,169	5%	22,334,711	5%	465,542	0

Analysis of Aging	December 31, 2002	Percentage of Open Receivable	December 31, 2003	Percentage of Open Receivable	Increase/ (Decrease)	Percentage Increase/ (Decrease)
61-90 Days	25,054,106	6%	24,534,742	5%	(519,364)	(1%)
91-120 Days	14,640,578	3%	24,615,895	5%	9,975,317	2%
121-360 Days	65,399,263	16%	103,837,163	23%	38,437,900	7%
Over 360 Days	<u>129,263,762</u>	<u>30%</u>	<u>162,863,632</u>	<u>36%</u>	<u>33,599,870</u>	<u>6%</u>
Total Aged Amount (Per Department)	\$326,196,163	76%	\$422,698,381	93%	\$96,502,218	17%
Variance (Explained Below)	<u>\$101,268,341</u>	<u>24%</u>	<u>\$33,738,010</u>	<u>7%</u>	<u>(\$67,530,331)</u>	<u>(17%)</u>
	<u>\$427,464,504</u>	<u>100%</u>	<u>\$456,436,391</u>	<u>100%</u>	<u>\$28,971,887</u>	<u>0</u>

We also noted a variance for each year when we compared the open receivable amount to the total aged amount. The variances are caused by departments that did not age their accounts receivable balances and departments whose aging did not equal the open receivable amount as reported by the OSC. Below is a listing of the departments that did not age their receivable balances.

Department	December 31, 2002	December 31, 2003
Berkshire Community College	\$307,453	\$193,538
Bridgewater State College	1,136,997	-
Office of Campaign and Political Finance	-	20,422
Department of Mental Retardation	389,000	-
Department of Social Services	1,178,757	-
Holyoke Soldiers' Home	152,177	-
Roxbury Community College	24,101	24,101
Salem State College	18,412,795	2,654,936
University of Massachusetts	<u>73,910,678</u>	<u>23,029,023</u>
Total	<u>\$95,511,958</u>	<u>\$25,922,020</u>

Seven of the 11 departments that did not age their accounts receivable balances were institutions of higher education. Salem State College and the University of Massachusetts balances represent 97% of the total unaged balances for each fiscal year. Both of those institutions experienced significant decreases in their balances from December 31, 2002 to December 31, 2003.

In addition to the departments that did not age their balances, other departments agings of their receivables did not equal the OSC open receivable balance reported on BARS. Below is a summary of the variances in the aged balances by department for December 31, 2002 and 2003.

Departments	December 31, 2002 Open Receivable Balance per BARS	December 31, 2002 Aged Amount per Departments	Variance
Criminal Justice Training Council	\$349,300	\$307,900	\$41,400
Office of Campaign and Political Finance	26,079	16,693	9,386
Department of Correction	1,023,909	236,522	787,387
Department of Public Health	51,933,980	51,934,580	(600)
State Lottery Commission	1,742,002	1,735,225	6,777
Massachusetts College of Art	675,970	722,412	(46,442)
Northern Essex Community College	320,227	323,227	(3,000)
Registry of Motor Vehicles	<u>57,518,241</u>	<u>52,556,767</u>	<u>4,961,474</u>
Total	<u>\$113,589,708</u>	<u>\$107,833,326</u>	<u>\$5,756,382</u>

Departments	December 31, 2003 Open Receivable Balance per BARS	December 31, 2003 Aged Amount per Departments	Variance
Bridgewater State College	\$15,466,523	\$16,661,523	(\$1,195,000)
Division of Medical Assistance	104,320,233	102,933,233	1,387,000
Department of Mental Health	24,414,091	24,544,649	(130,558)
Department of Public Health	67,069,777	66,530,187	539,590
Fitchburg State College	36,860	29,689	7,171
Group Insurance Commission	4,180,648	2,008,475	2,172,173
Massachusetts Bay Community College	4,192,316	4,188,614	3,702
Massachusetts College of Art	524,664	675,970	(151,306)
Mt. Wachusett Community College	133,286	117,194	16,092
Massachusetts College of Liberal Arts	<u>10,400,093</u>	<u>5,232,969</u>	<u>5,167,124</u>
Total	<u>\$230,738,491</u>	<u>\$222,922,503</u>	<u>\$7,815,988</u>

We also noted from our review of the mid-year summary report for the period ended December 31, 2003 (fiscal year 2004) that \$162,863,632 represented open receivables greater than 360 days old. This amount includes 31 departments, three of which make up 88%, or \$142,473,286 of the \$162,505,303. These departments are the Department of Medical Assistance (\$42,890,938), the

Registry of Motor Vehicles (\$36,458,627) and the Department of Transitional Assistance (\$63,123,721).

As noted in the preceding schedules, each year there are departments that have large unreconciled variances. As of December 31, 2003, the Registry of Motor Vehicles had a variance of approximately \$4.9 million, which represents 87% of the total variance. According to RMV officials, the variance is due to data entry errors in recording citations on the RMV's internal accounting system. Once errors are corrected in the RMV's internal accounting system, corrections are not being made to BARS. As of December 31, 2003, the Massachusetts College of Liberal Arts had a variance of \$5.1 million, a majority of which represents an unreconciled difference in the college's reporting of the balance of tuition due for its Division of Continuing Education.

Departments that report in summary must age their accounts receivable on BARS, and the amount reported on BARS must be reconciled to each department's individual accounting system. Moreover, an accurate aging of receivable balance is necessary to monitor and collect all state receivables. OSC Policy Memorandum No. 315, which requires departments to maintain a level of detail to support its summary accounts receivable, states, in part:

Summary Reporting

Departments are required to utilize BARS to maintain one summary receivable, across fiscal years, that accurately represents the net value of the Earned Revenue/Accounts Receivable by revenue source code. When recording earned revenue/receivables at a summary level on BARS, departments are required to maintain their approved delegated accounts receivable system at a sufficient level of detail to verify the accuracy of summary reporting. By the close of each accounting period it is a requirement that the summary receivable amount be adjusted by the department. Adjustments that are currently supported by BARS transactions are:

- Cash collections which reduce the summary receivable (CT)*
- Increases in the receivable amount for new services, claims, etc. for the month or to record errors resulting in increases (RI)*
- Decreases in the receivable amount to record errors resulting in decreases or other downward adjustments to the amount resulting from disallowances (RD)*
- Uncollectible amounts approved by the Office of the Comptroller for write-off (WO)*

Departments are also reminded that the summary receivable should not be adjusted for factors affecting the ability to collect such as historical collection experience, deferred

revenues, disallowances or write-offs at the time the receivable is created on BARS. Departments (or in the case of write off, OSC) will reduce the summary receivable during the course of the year for such collection factors by using the appropriate MMARS transaction.

Based on our review and analysis of BARS reports, we randomly selected eight departments that used the BARS system as their primary billing system and report in “detail.” Because these departments use BARS as their billing system, the OSC was able to provide us with detailed aging reports for receivables greater than 90 days old. Our review has identified departments that have significant outstanding past-due accounts receivable greater than three years old. Below are a summary of these departments and an aging of their receivables as of January 2003:

AGENCY	Type of Revenue	91 Days to 1 Year	1 Year to 2 Years	2 Years to 3 Years	Over 3 Years	Total > 90 Days
Metropolitan District Commission	Rents, Permits	\$ 87,818	\$ 79,417	\$ 69,372	\$ 180,551	\$ 417,158
Department of Social Services	Health Insurance	153,632	230,964	262,502	1,506,241	2,153,339
Department of Mental Retardation	Health Service, Room and Board	804,530	320,334	215,165	424,275	1,764,304
Department of Revenue (non-tax revenue)	Underground Storage Tanks	128,555	172,274	214,769	1,408,838	1,924,436
State Racing Commission	Fees	-	-	349,039	-	349,039
North Shore Community College	Tuition, Student Fees	-	-	-	211,002	211,002
Health Care Finance & Policy	Uncompensated Care	503,346	1,764,398	132,330	781,712	3,181,786
Department of Industrial Accidents	Fines and Fees	<u>1,434,567</u>	<u>2,390,815</u>	<u>3,525,336</u>	<u>3,662,909</u>	<u>11,013,627</u>
Total		<u>\$3,112,448</u>	<u>\$4,958,202</u>	<u>\$4,768,513</u>	<u>\$8,175,528</u>	<u>\$21,014,691</u>
Percentage of Total		15%	23%	23%	39%	100%

From our review and analysis we determined that a total of \$8,175,528, or 39% of the \$21,014,691 total past-due balance is greater than three years old. Additionally, we noted that six of these departments had accounts receivable of \$825,688 that were outstanding for up to seven years. In the case of the Department of Industrial Accidents (DIA), some outstanding accounts receivable SWO fines (dating back to 1994) were pursued and declared uncollectible by DIA’s debt collection agency. Accordingly, the preliminary results of our follow-up audit the DIA identified and remitted to the OSC \$2,543,112 or 393 past due SWO fines for write-off. The OSC approved this write-off

in March 2003 and the DIA is continuing its review of debt collection agency reports to identify additional uncollectible SWO's for write-off (see Audit Result No. 1 for more details on DIA receivables).

Departments that report in "detail" and "summary" on BARS and are monitoring, managing, recording and reporting their accounts receivables should continue to do so. However, departments that have a large percentage of receivables that are past due (i.e., 90 days to over three years old) should make every effort to collect past due accounts and monitor and manage their accounts receivable. As an accounts receivable balance becomes older the likelihood of collection decreases. Because some departments are not responding to the OSC's request and other departments' balances do not reconcile to BARS, the Commonwealth cannot be assured that the amount reported represents an accurate aging or balance of the receivable. Therefore, in lieu of all departments reporting in "detail," the Commonwealth should require departments that report in summary to reconcile their accounting system to BARS on a monthly or quarterly basis, or if this is not feasible, report on BARS in detail.

5. ACCOUNTS RECEIVABLE WRITE-OFFS

To properly and accurately report the Commonwealth's accounts receivable, those accounts that are deemed uncollectible should be written off in accordance with 815 CMR 9.07(8), which states:

Neither the Department nor the Collection Agency has authority to Write-Off bad debts. Bad debts must be referred directly to the Office of the Comptroller for Write-Off by the Department. Collection Agencies may not refer any debt directly to the Office of the Comptroller. The Department shall file necessary evidence and reports with the Office of the Comptroller certifying the bad debt and that diligent efforts have been made to collect the debt. The Office of the Comptroller may delegate Write-Off authority to Departments which have demonstrated sound business practice in their management of receivables, debt collection, and requests for write-offs as measured by adherence to Office of the Comptroller policy and procedures. This authority may not be delegated to a Collection Agency.

To write-off accounts receivable, the agency must submit a Write-Off Request Form to the OSC's Revenue Bureau Director. The request form shall include all back-up documentation indicating that all collection efforts were taken to collect the debt. After proper review and approval, the write-off is processed and the receivable is removed from the BARS system.

The following chart illustrates write-offs taken by state departments through the BARS system for the last eight years:

<u>AGENCY*</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>Total</u>
BHC	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 723,626	\$ 723,626
BRC	-	-	-	28,351	12,610	-	15,565	4,934	\$ 61,460
BSC	86,273	79,250	147,670	203,101	317,282	74,535	-	11,124	\$ 919,235
CHE	26,643	-	-	-	-	-	-	-	\$ 26,643
CPC	-	-	-	-	86,809	-	-	48,418	\$ 135,227
CTR	-	-	-	-	-	757	-	-	\$ 757
DIA	-	-	-	-	-	32,250	-	535,750	\$ 568,000
DMA	-	-	-	-	-	907,001	-	100,088	\$ 1,007,089
DMH	104,556	668,590	51,210	6,589	116,145	187,360	42,696	35,481	\$ 1,212,627
DOC	-	284,019	-	-	-	-	-	-	\$ 284,019
DPH	784,494	175,607	1,155,899	262,997	498,995	1,497,164	1,876,938	1,312,771	\$ 7,564,865
DPU	-	-	-	-	-	-	72,400	-	\$ 72,400
DPW	237,842	136,190	33,363	71,068	40,519	80,193	62,526	32,512	\$ 694,213
DSS	237,692	42,000	141,029	-	89,531	207,701	139,951	190,361	\$ 1,048,265
EQE	98,218	90,150	18,563,368	59,215	141,254	147,425	527,591	94,837	\$ 19,722,058
FRC	64,668	58,655	44,522	20,452	56,049	-	-	-	\$ 244,346
FWE	-	-	-	-	-	-	3,130	156	\$ 3,286
GCC	-	-	-	6,252	9,081	9,127	8,461	2,316	\$ 35,237
GIC	-	268,520	-	2,094,073	-	-	-	-	\$ 2,362,593
HCF	-	-	-	550,682	-	-	3,342,748	420,427	\$ 4,313,857
HLY	-	-	-	-	-	-	-	720,613	\$ 720,613
LLW	-	-	12,607	144	-	176	-	-	\$ 12,927
LOT	343,549	2,120,727	1,005,056	4,202,089	3,183,166	2,645,325	2,934,776	1,824,328	\$ 18,259,016
MCD	-	-	-	5,865	1,393	-	-	7,251	\$ 14,509
MDC	-	-	-	-	-	-	225,664	30,057	\$ 255,721
NAC	-	-	-	-	-	72,293	-	51,166	\$ 123,459
NSC	196,438	288,601	93,966	163,012	118,985	179,285	-	-	\$ 1,040,287
OCD	1,250	-	-	22,916	432	-	-	-	\$ 24,598
PER	473	23,085	-	-	-	-	76,604	-	\$ 100,162
QCC	-	-	-	-	-	-	301,389	30,675	\$ 332,064
SEC	-	-	-	850	-	1,060	13,611	8,571	\$ 24,092
SEN	-	-	-	-	-	-	-	3,915	\$ 3,915
TRP	-	-	-	-	-	-	-	612	\$ 612
SSA	-	49,149	-	-	-	-	-	-	\$ 49,149
STC	-	-	-	245,160	-	-	-	-	\$ 245,160
TRP	-	-	-	-	1,341	-	10,531	-	\$ 11,872
UMS	87,207	-	78,409	111,800	227,382	77,909	108,347	-	\$ 691,054
WOR	55,072	-	148,313	32,994	-	22,194	23,939	-	\$ 282,512
WSC	-	-	-	-	51,157	86,788	54,804	9,469	\$ 202,218
Total	\$ 2,324,375	\$ 4,284,543	\$ 21,475,412	\$ 8,087,610	\$ 4,952,131	\$ 6,228,543	\$ 9,841,671	\$ 6,199,458	\$ 63,393,743

* See Appendix I for agency name and revenue type.

From the chart above we noted the following:

- Of the 76 state departments that report on BARS, 39 have written off \$63,393,743 over the past eight years. On average, only 17 departments annually write off receivables.
- The Department of Environmental Protection (EQE) wrote off \$19,722,058 in fees and permits, of which \$18,563,368 was written off in 1998.
- Over the past eight years, the Massachusetts State Lottery Commission (MSLC) has written off \$18,259,016 in lottery receipts that sales agents owed the Commonwealth (see Audit Result No. 1 for more details on MSLC receivables).
- The Group Insurance Commission (GIC) wrote off \$2,362,593 in health insurance, of which \$2,094,073 represented two individual write-offs in 1999.
- The Division of Health Care Finance and Policy (HCF) wrote off \$4,313,857 in uncompensated care, of which \$3,342,748 represents one individual write-off in 2002.
- Three departments (Department of Public Health, Department of Environmental Protection, and the Massachusetts State Lottery Commission) made up \$45,545,939, or 72% of the total amount written off in the past eight years.

Accounts receivable may also be reduced using a Receivable Decrease (RD) transaction, but this is to be used only in the case of an error in processing the receivable or the downward adjustment to amount resulting from disallowances, not as a means to eliminate or write off an uncollectible amount. In its Policy Memorandum No. 315, the OSC has established a \$100,000 threshold amount for the use of an RD transaction; all RD transactions in excess of \$100,000 must be approved by the OSC. In a previous audit of the Department of Transitional Assistance (No. 99-0310-3), our office found that RD transactions were used to write off approximately \$37.5 million. During our review we found that DMR was also incorrectly using RDs to write off an undetermined amount of receivables that it deemed uncollectible (see Audit Result No. 1 for more details on DTA's accounts receivables).

Also, we obtained an aging of receivables from the Registry of Motor Vehicles (RMV), which maintains its own independent accounts receivable system and reports monthly in "summary" to BARS. Our review disclosed that the RMV reported on the fiscal year 2003 and 2004 Mid-Year Summary Receivable Report overdue motor vehicle fines greater than 90 days old totaling \$48,625,670 and \$49,043,232 respectively, of which 50% of the total receivable balance represents

finer for citations issued during the period July 1, 1991 to June 30, 2000. We noted that over the past eight years the RMV has never written off any of its accounts receivable other than bad checks. However, RMV officials have indicated that many of these citations may be for out-of-state drivers and virtually impossible to collect.

Departments that do not have large outstanding accounts receivable balances, whereby they have had limited write-offs or no write-offs at all, should continue to efficiently and effectively manage their accounts receivables. Departments that have large outstanding old accounts receivable balances and those which had numerous write-offs during the past eight years should assess their management of accounts receivables and take the appropriate measures to maximize the write-off of past due accounts.

CONCLUSIONS AND RECOMMENDATIONS

As the Commonwealth continues to enhance and improve its non-tax revenue base, it also must improve its accounts receivable billing, collecting, and monitoring procedures. Departments receive annual appropriations from the Legislature to operate their programs. Therefore, unlike the private sector, there is little incentive in government to collect revenue in a timely fashion because in most cases departments do not retain the revenues they collect to support their financial and programmatic operations. Except in certain cases in which revenues collected up to specified levels are retained by state departments to maintain operations and further program goals, there is little relationship between spending and revenue collected by an agency. For these reasons there may be little or no incentive for managers to prioritize the collection of revenue efforts; instead, they prioritize the expenditure of funds to provide services to the public.

State managers must be more sensitive and responsive to the overall funding requirements of state government and place stronger emphasis on revenue collections. We concluded that state agencies must improve collections of accounts receivable, which would include more timely and frequent billings, collections, and deposits of revenue due the Commonwealth. Monitoring and collecting non-tax revenues is the only way to ensure that funds due the Commonwealth are realized and that departments manage their accounts receivable efficiently and effectively.

Based on our statewide review of accounts receivable, we recommend the following:

- Departments should become more aggressive in their collection efforts of accounts receivable to include current as well as past-due accounts. Due to economic trends and inflation, the value of a receivable decreases over time. Therefore, as amounts owed are more likely to be collected as current accounts receivable than as older accounts receivable, departments should closely monitor their collection status and address accounts receivable in a more timely fashion. By collecting accounts receivable as soon as possible, the Commonwealth would maximize revenue, improve cash flow, and reduce losses as receivables age and are less likely collected.
- The Commonwealth must find new methods to improve its billing and collection procedures. For example, the Commonwealth may benefit by implementing incentive-type programs for departments that collect their outstanding receivables in a timely manner. As part of the budgetary process, an agency's ability to collect receivables in a timely manner should be considered while establishing appropriations.

- The Commonwealth should continue to strongly encourage departments to utilize the Payment Intercept Program to its full potential and require all departments to participate in this collection process. Because the intercept system is integrated with BARS and the Department of Revenue's Mass Tax System, it has proven to be an excellent vehicle for collecting past-due accounts receivable.
- The Commonwealth should continue to strongly encourage all departments to utilize the debt collection program in conjunction with the intercept program.
- The OSC, in accordance with Policy Memorandums No. 315 and No. 318, should require that all departments, including all institutions of higher education, that report to the Commonwealth in "summary" form, provide an accurate aging of their "summary" accounts receivable. Additionally, all departments reporting in "summary" should reconcile their receivable system monthly to the Commonwealth's BARS system.
- The Commonwealth should consider implementing a penalty and interest charge system, where appropriate, for past-due accounts receivable. However, the system should also be able to identify an exception, such as a disputed invoice or administrative issue, to prevent penalties and interest from being charged erroneously.
- The OSC should continue to review and analyze financial trend data from the BARS system such as unchanging balances, large increases or decreases to accounts, negative balances, and other unusual or questionable balances.
- The OSC should validate the accuracy and integrity of all departments' accounts receivable systems that are reporting in summary form (from an independent account receivable system to BARS). The OSC should also consider departments reporting in "summary" to reconcile their accounting system to BARS on a monthly or quarterly basis or, if this is not feasible, report on BARS in detail.
- After all collection efforts have been exhausted and a reasonable amount of time has passed, departments should submit uncollectible accounts receivable to the OSC in order to write off accounts in a timely manner.

APPENDIX I**List of Departments Reporting on the Billing and Accounts Receivable Subsystem (BARS)**

Agency Abbreviation	Agency Name	Type of Revenue
AGO	Attorney General's Office	Assessments, Filings, Federal Reimb.
ARG	Department of Food and Agriculture	Permits, licenses
ATB	Appellate Tax Board	Fees for transcript copies
BCA	Dept. of Labor and Workforce Development	Filing Fees
BCC	Berkshire Community College	Tuition, Student Fees
BHC	Bunker Hill Community College	Tuition, Student Fees
BRC	Bristol Community College	Tuition, Student Fees
BSB	Bureau of State Office Buildings	Rent, UPS fees, % of Cafe Rev.
BSC	Bridgewater Community College	Tuition, Student Fees
CCC	Cape Cod Community College	Tuition, Student Fees
CHE	Chelsea Soldiers' Home	Third-Party Payments
CJT	Criminal Justice Training Council	Police Training
CPC	Committee for Public Counsel Services	Overbillings
CPF	Campaign and Political Finance	Fines, Copies
DEM	Department of Environmental Management	Leases
DES	Division of Employment and Training	Health Insurance
DFS	Department of Fire Services	Training
DIA	Department of Industrial Accidents	Fines, Fees
DMA	Division of Medical Assistance	Insurance
DMH	Department of Mental Health	Health Services, Room and Board
DMR	Department of Mental Retardation	Health Services, Room and Board
DOB	Division of Banks	Assessments, Bank Examinations
DOC	Department of Correction	Industries
DOI	Division of Insurance	Assessments, Examinations
DOR	Department of Revenue	Tax, Fees, Penalties
DOS	Division of Standards	Fines, Lab Costs
DPH	Department of Public Health	Medical Services
DPU	Department of Telecommunications and Energy	Fines, Assessments
DPW	Massachusetts Highway Department	Rentals, Signs, Repairs
DSS	Department of Social Services	Foster Care, Adoption
EQE	Department of Environmental Protection	Fees, Permits
FRC	Framingham State College	Tuition, Student Fees
FSC	Fitchburg State College	Tuition, Student Fees
FWE	Fisheries and Wildlife	Licenses, Fees
GCC	Greenfield Community College	Tuition, Student Fees
GIC	Group Insurance Commission	Health Insurance
HCC	Holyoke Community College	Tuition, Student Fees
HCF	Health Care Finance and Policy	Uncompensated Care
HLI	Holyoke Soldiers' Home	Third -Party Payments
HRD	Human Resources Division	Training
ITD	Information Technology Division	Usage of Data Center
LLW	Low-Level Radioactive Waste Management Board	Unknown, Unable to Contact
LOT	Massachusetts State Lottery Commission	Lottery Receipts

List of Departments Reporting on the Billing and Accounts Receivable Subsystem (BARS)

Agency Abbreviation	Agency Name	Type of Revenue
MAS	Massasoit Community College	Tuition, Student Fees
MBC	Massachusetts Bay Community College	Tuition, Student Fees
MCA	Massachusetts College of Arts	Tuition, Student Fees
MCB	Massachusetts Commission for the Blind	Products, Services
MCC	Middlesex Community College	Tuition, Student Fees
MCD	Commission for the Deaf and Hard of Hearing	Interpreting Services
MDC	Metropolitan District Commission	Rent, Permits
MMA	Massachusetts Maritime Academy	Tuition, Student Fees
MWC	Mount Wachusett Community College	Tuition, Student Fees
NAC	Massachusetts College of Liberal Arts	Tuition, Student Fees
NEC	Northern Essex Community College	Tuition, Student Fees
NSC	North Shore Community College	Tuition, Student Fees
OCD	Department of Housing and Community Development	Loans
OSD	Operational Services Division	Lease of Automobiles
POL	Department of State Police	Details, Communication Fees
QCC	Quinsigamond Community College	Tuition, Student Fees
RCC	Roxbury Community College	Tuition, Student Fees
RMV	Registry of Motor Vehicles	Citations
SEC	Secretary of the Commonwealth	Registration Fees
SEN	Senate	Unknown
SRB	State Reclamation Board	Mosquito Control
SRC	State Racing Commission	Fees
SSA	Salem State College	Tuition, Student Fees
STC	Springfield Technical Community College	Tuition, Student Fees
TRE	Office of the State Treasurer	Unreconciled Amounts from Payroll
TRP	Executive Office of Transportation and Construction	Fees, Licenses, Leases
UMS	University of Massachusetts	Tuition, Student Fees
WEL	Department of Transitional Assistance	Overpayments, Health insurance
WOR	Worcester State College	Tuition, Student Fees
WSC	Westfield State College	Tuition, Student Fees

APPENDIX II

Accounts Receivable Survey

Telephone calls were made to departments to obtain a profile of their receivables and procedures for billings, collections, intercepts, write-offs, collection agency activities, and reporting to the BARS system.

Questions	Responses
Number of departments surveyed	148
Departments reporting on BARS	76
Departments reporting on BARS in "detail"	27
Departments reporting on BARS in "summary"	40
Departments reporting in both "summary" and "detail" on BARS	9
Departments with written accounts receivable collection policies and procedures	64
Departments that utilize the intercept system	46
Departments that have specific write-off procedures	40
Departments that use debt collection companies	45
Departments with open receivables as of September 18, 2002	76
Departments with accounts receivable over 90 days as of September 18, 2002	74

APPENDIX III

Accounts Receivable Per the Commonwealth's Annual Financial Report for Fiscal Year 2003

Amounts In Thousands (000)													
		Tax	Allowance		Federal	Allowance	Federal		Allowance		Loans	Allowance	Loan
	MMARS	Gross	for	Tax	Reimbursemt	for	Reimbursement	Other Gross	for	Other	Gross	for	Net
<u>Agency Name</u>	<u>Abbr.</u>	<u>Receivable</u>	<u>Uncollectible</u>	<u>Net Total</u>	<u>Gross Receivable</u>	<u>Uncollectible</u>	<u>Net Total</u>	<u>Receivable</u>	<u>Uncollectible</u>	<u>Net Total</u>	<u>Receivable</u>	<u>Uncollectible</u>	<u>Receivable</u>
Attorney General's Office	AGO			\$0			\$0	\$2 11		\$2 11			
Appellate Tax Board	ATB			\$0			\$0	\$5		\$5			
Chelsea Soldiers' Home	CHE			\$0	\$190		\$190	\$29		\$29			
Criminal Justice Training Counsel	CJT			\$0			\$0			\$0			
Committee for Public Counsel Services	CPC			\$0			\$0	\$122		\$122			
Office of the State Comptroller	CTR			\$0	\$304,512		\$304,512			\$0			
Dept. of Environmental Management	DEM			\$0			\$0	\$6		\$6			
Division of Employment and Training	DES	\$7,923	(\$2,829)	\$5,094			\$0	\$392,115	(\$157,754)	\$234,361			
Department of Fire Services	DFS			\$0			\$0	\$176		\$176			
Department of Industrial Accidents	DIA			\$0			\$0	\$24,568	(\$8,367)	\$16,201			
Division of Medical Assistance	DMA			\$0	\$658,008		\$658,008	\$42,214		\$42,214			
Department of Mental Health	DMH			\$0	\$14,017	(\$2,276)	\$11,741	\$3,101	(\$2,534)	\$567			
Department of Mental Retardation	DMR			\$0	\$44,301		\$44,301	\$2,725		\$2,725			
Division of Banks	DOB			\$0			\$0	\$329		\$329			
Department of Correction	DOC			\$0			\$0	\$1,929	(\$945)	\$984			
Department of Education	DOE			\$0			\$0	\$7,101		\$7,101			
Division of Insurance	DOI			\$0			\$0	\$680		\$680			
Department of Revenue	DOR			\$0	\$1,907		\$1,907	\$1,958	(\$979)	\$979			
Department of Revenue (Child Supp)	DOR			\$0	\$5,325		\$5,325	\$535,292	(\$506,856)	\$28,436			
Department of Revenue (Tax)	DOR	\$2,053,730	(\$308,842)	\$1,744,888			\$0	\$905	\$0	\$905			
Department of Public Health	DPH			\$0	\$19,457	(\$1,313)	\$18,144	\$17,604	(\$9,167)	\$8,437	\$17		\$17
Dept. of Telecommunications & Energy	DPU			\$0			\$0	\$1,794	(\$309)	\$1,485			
Massachusetts Highway Department	DPW			\$0			\$0	\$1,193	(\$41)	\$1,152			
Central Artery	OCIP			\$0			\$0	\$1,856		\$1,856			
Department of Social Services	DSS			\$0			\$0	\$1,793	(\$472)	\$1,321			
Exec. Office of Health and Human Services	EHS			\$0	\$1,726		\$1,726			\$0			
Department of Environmental Protection	EQE			\$0			\$0	\$21,615	(\$12,125)	\$9,490			
Fiscal Affairs Division	FAD			\$0			\$0	\$1,013	\$0	\$1,013			
Fisheries and Wildlife	FWE			\$0	\$1,235		\$1,235	\$205		\$205			
Group Insurance Commission	GIC			\$0			\$0	\$1,114		\$1,114			
Health Care Finance and Policy	HCF			\$0			\$0	\$18,638	(\$2,433)	\$16,205			
Holyoke Soldiers' Home	HLV			\$0	\$1,439	(\$485)	\$954	\$703	(\$11)	\$692			
Human Resources Division	HRD			\$0			\$0	\$0		\$0			

APPENDIX III

Accounts Receivable Per the Commonwealth's Annual Financial Report for Fiscal Year 2003

Amounts In Thousands (000)													
		Tax	Allowance		Federal	Allowance	Federal		Allowance		Loans	Allowance	Loan
	MMARS	Gross	for	Tax	Reimbursement	for	Reimbursement	Other Gross	for	Other	Gross	for	Net
<u>Agency Name</u>	<u>Abbr.</u>	<u>Receivable</u>	<u>Uncollectible</u>	<u>Net Total</u>	<u>Gross Receivable</u>	<u>Uncollectible</u>	<u>Net Total</u>	<u>Receivable</u>	<u>Uncollectible</u>	<u>Net Total</u>	<u>Receivable</u>	<u>Uncollectible</u>	<u>Receivable</u>
Health Care Security Trust	HST			\$0			\$0	\$15,664		\$15,664			
Information Technology Division	ITD			\$0				\$361	(\$57)	\$304			
Low-Level Radioactive Waste Board	LLW			\$0			\$0	\$142		\$142			
Massachusetts Lottery Commission	LOT			\$0			\$0	\$8,085	(\$2,640)	\$5,445			
Massachusetts Commission for the Blind	MCB			\$0			\$0	\$23		\$23			
Metropolitan District Commission	MDC			\$0			\$0	\$7,874	(\$249)	\$7,625			
Dept. of Housing and Comm. Dev.	OCD			\$0			\$0	\$4,262	\$0	\$4,262	(\$17)		(\$17)
Office of Child Care Services	OFC			\$0	\$32,968		\$32,968			\$0			
Massachusetts State Police	POL			\$0			\$0	\$4,228	(\$911)	\$3,317			
Registry of Motor Vehicles*	RMV			\$0			\$0	\$427	(\$43)	\$384			
Franklin Sheriff's Department	SDF			\$0	\$230		\$230			\$0			
Hampton Sheriff's Department	SDH			\$0	\$171		\$171			\$0			
State Reclamation Board	SRB			\$0				\$10		\$10			
State Racing Commission	SRC			\$0			\$0	\$349	(\$349)	\$0			
Office of the State Treasurer	TRE			\$0	\$83,622		\$83,622	\$112		\$112			
Department of Transitional Assistance	WEL			\$0	\$60,100	(\$2,949)	\$57,151	\$60,496	(\$21,713)	\$38,783			
Misc. Receivable				\$0	\$0		\$0	\$940		\$940			
Higher Education Institutions				\$0	\$37,476		\$37,476	\$209,776	(\$29,460)	\$180,316	\$53,354	(\$7,257)	\$46,097
Total		<u>\$2,061,653</u>	<u>(\$311,671)</u>	<u>\$1,749,982</u>	<u>\$1,266,684</u>	<u>(\$7,023)</u>	<u>\$1,259,661</u>	<u>\$1,393,743</u>	<u>(\$757,415)</u>	<u>\$636,328</u>	<u>\$53,354</u>	<u>(\$7,257)</u>	<u>\$46,097</u>

* The Registry of Motor Vehicles accounts receivable balance of \$427,000 represents outstanding returned checks on the last day of the fiscal year. Although the BARS system shows \$56,271,319 in civil motor vehicle citations, the Registry of Motor Vehicles has determined that it does not recognize these accounts receivable for GAAP purposes until it is collected because the citations can be contested and reversed.

APPENDIX IV**Code of Massachusetts Regulations and Office of the State Comptroller Policy
Memorandums for Accounts Receivable*****815 CMR 9.00 Collection of Debt***

The 815 Code of Massachusetts Regulations (CMR) 9.00 governs the collection of non-tax revenue accounts receivable and debt owed to the state and not otherwise provided for by law. It also provides departments with access to services that promote the efficiency and effectiveness of collecting debt owed the state, thereby enhancing its non-tax revenue. The 815 CMR 9.00 provides both for interdepartmental assistance from the Office of the State Comptroller (OSC) to intercept state payments due to debtors and for procurement and contract management of contingent fee contracts for debt collection services.

MMARS Memorandum No. 309 Debt Collection

The purpose of this memorandum was to notify all departments that 11 firms had been awarded the Operational Services Division Designated FY02 Debt Collection Statewide Contract. These firms were selected as a result of the competitive procurement process conducted by the OSC in accordance with Chapter 29, Section 29D, of the Massachusetts General Laws.

MMARS Memorandum No. 315 OSC Policy on Reporting of Earned Revenue/Accounts Receivable

This memorandum describes the OSC's goal to ensure that full accounting, recording, and reporting of earned revenue/accounts receivable due to the Commonwealth is accomplished through the Commonwealth Billing and Accounts Receivable Subsystem (BARS). Departments will use BARS to simplify their GAAP reporting.

MMARS Memorandum No. 318 Update to Debt Collection and Accounts Receivable Policies

This memorandum highlights changes made by the OSC as part of its ongoing efforts to improve debt collection practices and to provide departments with the tools they need to collect overdue debt owed the Commonwealth in an efficient and timely manner. The changes include:

- Amendments to 815 CMR 9.00 Debt Collection Regulations
- New Statewide Debt Collection Contract
- Changes in BARS default billing and dunning notice text
- Enhancements to the intercept program for debt collection
- Department of Revenue debt minimums for the intercept program
- The addition of a hearing officer address to BARS remittance advices

MMARS Memorandum No. 324 Update to the Payment Intercept Program

The Commonwealth's automated Payment Intercept Program, which matches debt owed the Commonwealth to payments being made by the Commonwealth to allow payments to be intercepted and debt relieved, is being expanded to (1) include departments that report their accounts receivable in "summary" to MMARS; (2) allow the Commonwealth to collect a processing fee for all successful intercepts from the debtor; and (3) reach out to municipalities and authorities to offer an assist in their debt collection through this process. The 815 CMR 9.00 has been updated to reflect changes noted in Policy Memorandum No. 324.

Billing and Accounts Receivable System (BARS) Policy Manual

This manual sets forth the policies and procedures regarding the recognition of an accounts receivable event, customer files, tables and transactions, collections, internal controls reporting, recording, and other pertinent information regarding billing and accounts receivable.